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Foreign Relations of the United States 1952–1954

Volume I

General: Economic and Political Matters

(in two parts)

Part 1

Editor in Chief
William Z. Slany

Editors

David M. Baehler
Herbert A. Fine
Ralph R. Goodwin
N. Stephen Kane
Ronald D. Landa
Lisle A. Rose
William F. Sanford, Jr.
Ilana M. Stern

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PREFACE

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts which contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of the Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.

b. To condense the record and avoid repetition of needless details.

c. To preserve the confidence reposed in the Department by individuals and by foreign governments.

d. To avoid giving needless offense to other nationalities or individuals.

e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews

the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of State, as well as of other appropriate agencies of the government. The Center, in coordination with the geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

Fredrick Aandahl supervised the initial planning of this volume. William Z. Slany, his successor as General Editor of the *Foreign Relations* series, directed the process of compilation, review, and editing, with the assistance of Ralph R. Goodwin and N. Stephen Kane. John P. Glennon and Paul Claussen provided subsequent review and were responsible for the final stages of publication.

The following members of the Office of the Historian prepared sections of this volume: N. Stephen Kane (general foreign economic policy, international monetary and financial policy, transportation and communication policy); William F. Sanford, Jr. (international trade and commercial policy, foreign investment and economic development); Lisle A. Rose (foreign policy aspects of administrative transition, foreign assistance policies under the Mutual Security Program, Congressional loyalty and security investigations, Antarctica); David M. Baehler (economic defense); Ronald D. Landa (antitrust legislation, the Bricker Amendment); Herbert A. Fine (law of the sea); and Ilana M. Stern (immigration and migration). David H. Stauffer and, at a later stage, Nina J. Noring assisted in the clearance of this volume. Carmen Medina and Bret D. Bellamy provided research assistance and support.

Rita M. Baker of the Publishing Services Division (Paul M. Washington, Chief) performed the technical editing of this volume under the supervision of Margie R. Wilber. The index was prepared by the Twin Oaks Indexing Collective.

WILLIAM Z. SLANY
The Historian
Bureau of Public Affairs

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The principal source of documentation for this volume was the indexed central (decimal) files of the Department of State. Documents from the central files were supplemented by materials from Department of State "lot" files (retired decentralized office files) and post files (records retired by United States missions abroad). The editors also made use of papers in the Harry S. Truman Library at Independence, Missouri, and in the Dwight D. Eisenhower Library at Abilene, Kansas. Various collections of papers in unofficial repositories were also consulted.

A list of principal sources used in the preparation of this volume follows, with information concerning their origin and scope.

Files of the Department of State

A/MS Files, Lot 54 D 291

Consolidated administrative files of the Department of State for the years 1940–1960, as maintained by the Management Staff of the Bureau of Administration.

Camp Files, Lot 55 D 105

Special collection of documentation on European political and economic integration for the period 1948–1953, including important correspondence between officers of the Department of State and the White House staff and Congress, as maintained by Miriam Camp of the Office of European Regional Affairs.

Conference Files, Lot 60 D 627

Collection of documentation on official visits by heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for the period 1953–1955, as maintained by the Executive Secretariat of the Department of State. The file is a continuation of Lot 59 D 95.

Consular Affairs Files

Files of the Office of Security and Consular Affairs for the period 1946–1953, including general administrative records, consular management files, and miscellaneous subject files of the divisional components of the Office. These files were retired as part of Federal Records Center Accession No. 71A 2100.

Current Economic Developments, Lot 70 D 467

Master set of the Department of State classified internal publication *Current Economic Developments* for the years 1945–1969, as maintained in the Bureau of Economic Affairs. These records form part of Federal Records Center Accession No. 72A 6248, item 54.

Disarmament Files, Lot 58 D 133

Consolidated collection of documentation in the Department of State on the regulation of armaments and disarmament for the years 1942–1962.

ECA-MSA Assistant Administrator Files, FRC 55 A 374

Subject and country files consisting of correspondence, memoranda, field communications, committee documents, and budget and program papers, as maintained by the Office of the Assistant Administrator for Program, for the years 1948–1953. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 374.

ECA-MSA Director's Files, FRC 55 A 79

Bulky package file of material too large for the regular files, including drafts, reports, and briefing books for the period 1950–1953. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 79.

ECA-MSA Director's Files, FRC 55 A 79

Congressional file of correspondence and related material prepared or used in handling Congressional inquires. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 79.

ECA-MSA Director's Files, FRC 55 A 79

Country file of correspondence, memoranda, reproduced documents, cables, and airgrams pertaining to the administration of the Mutual Security Program for the years 1950–1953. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 79.

ECA-MSA Director's Files, FRC 55 A 79

Name file of correspondence and memoranda. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 79.

ECA-MSA Director's Files, FRC 55 A 79

Subject file of correspondence, memoranda, reproduced documents, administrative issuances, and related papers pertaining to the administration of the Mutual Security Program for the years 1950–1953. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 79.

ECA-MSA-FOA Executive Secretariat Files, FRC 56 A 241

Master file of agency and interagency committee document series, budget presentation and briefing books, and other materials retained for use by the Director's office, for the years 1948–1954. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 56 A 241.

ECA-MSA-FOA Files, FRC 55 A 374

Master file of incoming and outgoing FOA and Department of State Eyes Only telegrams for the period August 1949–June 1954. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 374.

ECA-MSA Special Representative's Files, FRC 57 A 709

General subject and country files of the European Regional Office at Paris, for the years 1950–1953, including correspondence, memoranda, cables, OEEC docu-

ments, and other country general program information on projects, commodities, and transportation. These files were retired by the International Cooperation Administration and form part of Federal Records Center Accession No. 57 A 709.

Economic Defense Files, Lot 59 D 665

Minutes and documents relating to the interagency Economic Defense Advisory Committee, the Coordinating Committee on export controls, the COCOM Consultative Group, and various other organizations concerned with export controls for the years 1950–1959, as maintained by the EDAC Executive Secretarist, Mutual Defense Assistance Control Staff, Bureau of Economic Affairs.

EUR/EX Files, Lot 57 D 694

Files of the Office of the Executive Director of the Bureau of European Affairs, 1948–1953, relating to foreign assistance and the Mutual Security Program, including action and information copies of letters, memoranda, telegrams, and instructions.

FOA Files, FRC 55 A 374

Master file of incoming and outgoing FOA airgrams for the period 1953–June 1954. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 374.

FOA Files, FRC 55 A 374

Master file of incoming FOA cables from the field missions and USRO for the years 1953–1954. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 374.

FOA Files, FRC 55 A 374

Master file of incoming FOA despatches and reports for the period July 1952–April 1954. These files were retired by the Foreign Operations Administration and form part of Federal Records Center Accession No. 55 A 374.

GATT Files, Lot 59 D 563

Subject files containing policy papers and briefing materials relating to international economic conferences, foreign economic policy studies, and European economic integration for the years 1952–1959, as maintained by the Office of International Trade.

GATT Files, Lot 63 D 134

File of GATT documents for Sessions VI–IX of the Contracting Parties, 1951–1955, including the GATT Review Session in 1955. These records form part of Federal Records Center Accession No. 65 A 987.

GATT Files, Lot 66 D 209

Documents relating to Sessions V–IX of GATT, 1949–1957. These records form part of Federal Records Center Accession No. 71 A 6682.

Hickerson–Murphy–Key Files, Lot 58 D 33

Files of Assistant Secretaries of State for United Nations Affairs John D. Hickerson, Robert D. Murphy, and David McK. Key for the years 1948–1954.

INR Files, Lot 59 D 27

Miscellaneous files for the years 1948–1954 as retired by the Bureau of Intelligence and Research, including the master file of minutes of the Intelligence Advisory Committee (IAC).

INR–NIE Files

Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Research, Bureau of Intelligence and Research.

International Trade Files, Lot 57 D 284

Comprehensive collection of files on commercial trade policy, the question of an international trade organization, and the negotiation, conclusion, and operation of the General Agreement on Tariffs and Trade, assembled and maintained in various economic offices of the Department of State during the years 1934–1956. These records form part of Federal Records Center Accession No. 65 A 987.

IO Files, Lot 71 D 440

Master files of classified records and correspondence of United States Delegations to sessions of the U.N. General Assembly for the years 1945–1965, maintained by the Bureau of International Organization Affairs.

Jessup Files, Lot 53 D 65

Files of Ambassador Philip Jessup on the Sixth and Seventh Sessions of the U.N. General Assembly, and other related records. These records form part of Federal Records Center Accession No. 64 A 987.

L/SFP Files, Lot 67 D 466

Files of the Special Functional Problems Division of the Office of the Legal Adviser concerning visa, immigration and passport regulations, cases, and legislation from 1940 to 1961. These files were retired as part of Federal Records Center Accession No. 69 A 6308.

L/SPF Files, Lot 68 D 47

Files of the Office of the Assistant Legal Adviser for Special Political Functions.

L/T Files

Files relating to the Bricker Amendment and the issue of proposals to limit the executive branch's treatymaking powers, 1950–1962, as maintained in the Office of the Assistant Legal Adviser for Treaty Affairs.

MSA–FOA Congressional Files, FRC 57 A 709

Files of the Office of the Deputy Director for Congressional Relations, including letters, memoranda, reports, testimony, and other papers related to the foreign economic program, for the years 1953–1954. These files were retired by the International Cooperation Administration and form part of Federal Records Center Accession No. 57 A 709.

MSA–FOA Director's Files, FRC 56 A 632

General subject and country file from the Office of the MSA–FOA Director covering all aspects of the foreign aid program for the years 1952–1955. These files were retired by the International Cooperation Administration and form part of Federal Records Center Accession No. 56 A 632.

Mutual Security Affairs Files, Lot 56 D 551

Country, subject, and legislative files on various aspects of the Mutual Security Program for the years 1954–1956, maintained for the use of the Special Assistant for Mutual Security Affairs (Frederick E. Nolting and Robert C. Hill).

Mutual Security Affairs Files, Lot 57 D 472

Subject and country files relating to the Mutual Security Program in Southeast Asia for the period 1950–1952, including International Security Affairs Committee (ISAC) documents, as maintained by the Office of the Special Assistant for Mutual Security Affairs. The bulk of these files form part of Federal Records Center Accession No. 64 A 867.

Mutual Security Affairs Files, Lot 57 D 567

Subject and country files relating to the Mutual Security Program primarily in the Far East and Southeast Asia for the period 1953–1957, as maintained by the Office of the Special Assistant for Mutual Security Affairs.

NAC Files, Lot 60 D 137

Master file of documents of the National Advisory Council on International Monetary and Financial Problems for the years 1945–1958, as maintained by the Bureau of Economic Affairs of the Department of State.

P–NSC Files, Lot 62 D 385

Selected serial documentation relating to the National Security Council for the years 1947–1965, as maintained by the Bureau of Public Affairs.

PPS Files, Lot 64 D 563

Master file of documents, drafts, records of meetings, memoranda, and related correspondence for the years 1947–1953 of the Policy Planning Staff.

PPS Files, Lot 65 D 101

Master file of documents, drafts, records of meetings, memoranda, and related correspondence for the year 1954 of the Policy Planning Staff.

Presidential Correspondence, Lot 66 D 204

Exchange of correspondence between the President and the heads of foreign governments for the years 1953–1964, as maintained by the Executive Secretariat of the Department of State.

PSB Files, Lot 62 D 333

Master file of minutes and papers of the Psychological Strategy Board for the years 1951–1953, as maintained by the Executive Secretariat of the Department of State.

Sandifer Files, Lot 55 D 429

Files of Deputy Assistant Secretary of State for United Nations Affairs Durward V. Sandifer for the years 1944–1953.

SCA Files, Lot 62 D 146

Subject files of the Office of Security and Consular Affairs for the period 1953–1960. These files were retired as part of Federal Records Center Accession No. 69 A 6308.

Secretary's Daily Meetings, Lot 58 D 609

Chronological collection of the records of the Secretary of State's daily meetings with top Department of State officials for the years 1949–1952, as maintained by the Special Assistant to the Secretary of State.

Secretary's Letters, Lot 56 D 459

Correspondence of the Secretary of State for the years 1945–1956, as maintained by the Executive Secretariat of the Department of State.

Secretary's Memoranda, Lot 53 D 444

Comprehensive chronological collections of the Secretary of State's memoranda, memoranda of conversation, and memoranda of conversation with the President for the years 1947–1953, as maintained by the Executive Secretariat of the Department of State.

Secretary's Memoranda of Conversation, Lot 65 D 238

Chronological collections of the Secretary of State's memoranda of conversation with the President for the years 1949–1952, memoranda of the Secretary and Under Secretary of State for the years 1951–1952, and the Secretary of State's memoranda of conversation with Senator Tom Connally of Texas for the years 1950–1951, as maintained by the Executive Secretariat of the Department of State.

Secretary's Staff Meetings, Lot 63 D 75

Chronological collections of the minutes of the Secretary of State's daily staff meetings which were held twice a week during the years 1952–1960, as maintained by the Executive Secretariat of the Department of State.

S/P–NSC Files, Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for the years 1950–1961, as maintained by the Policy Planning Staff.

S/P–NSC Files, Lot 62 D 1

Serial and subject master file of National Security Council documents and correspondence for the years 1950–1961, as maintained by the Policy Planning Staff.

S/S–NSC Files, Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947–1961, as maintained by the Executive Secretariat of the Department of State.

S/S–NSC Files, Lot 66 D 148

Miscellaneous files concerning subjects considered by the National Security Council during the period 1949–1962, as maintained by the Executive Secretariat of the Department of State.

S/S–NSC (Miscellaneous) Files, Lot 66 D 95

Administrative and miscellaneous National Security Council documentation, including NSC Records of Action, as maintained by the Executive Secretariat of the Department of State for the years 1947–1963.

S/S–OCB Files, Lot 61 D 385

Master set of administrative and country files of the Operations Coordinating Board for the years 1953–1960, as maintained in the Operations Staff of the Department of State.

S/S–OCB Files, Lot 62 D 430

Master files of the Operations Coordinating Board for the years 1953–1960, as maintained by the Executive Secretariat of the Department of State.

UNP Files, Lot 58 D 742

Miscellaneous subject files of the Office of United Nations Political and Security Affairs for the years 1945–1957.

UNP Files, Lot 59 D 237

Subject files of the Office of United Nations Political and Security Affairs for the years 1946–1957.

U.S. Information Agency files

USIA Files, Lot 56 D 581

General subject files concerning programs and operations of the U.S. Information Agency for the period 1948–1955, including records on the overseas information program and the McCarthy hearings. These records were retired by the U.S. Information Agency and form part of Federal Records Center Accession No. 61 A 502.

Other U.S. Government agency files

Federal Trade Commission, Bureau of Industrial Economics Files

Files relating to the international petroleum cartel, 1950–1957.

National Archives, SFRC Records

Records of the Senate Foreign Relations Committee, 1789–1976.

Harry S. Truman Library, Independence, Missouri

Truman Library, Acheson Papers

Papers of Dean Acheson, 1933–1971.

Truman Library, Murphy Papers

Papers of Charles S. Murphy, 1947–1967.

Truman Library, Spingarn Papers

Papers of Stephen J. Spingarn, 1933–1972.

Truman Library, Truman Papers, President's Secretary's File (PSF)

Papers of Harry S. Truman as President, 1945–1953, maintained by his personal secretary.

Truman Library, White House Central Files

Papers of Harry S. Truman as President, 1945–1953, from the Central Files of the White House.

Dwight D. Eisenhower Library, Abilene, Kansas

Eisenhower Library, Dulles Papers

Papers of John Foster Dulles, 1952–1959.

Eisenhower Library, Eisenhower Records

Records of Dwight D. Eisenhower as President, daily appointment books, 1953–1961.

Eisenhower Library, Hagerty Papers

Papers of James C. Hagerty, Press Secretary to the President, 1953–1961.

Eisenhower Library, Randall Commission Records

Records of the President's Commission on Foreign Economic Policy (Randall Commission), 1953–1954.

Eisenhower Library, Staff Secretary Records

Records of the Office of the Staff Secretary in the White House, 1952–1961, including the records of Paul T. Carroll, Andrew J. Goodpaster, L. Arthur Minnich, Jr., and Christopher T. Russell.

Eisenhower Library, White House Central Files

Records of Dwight D. Eisenhower as President, White House Central Files, 1953–1961.

Eisenhower Library, Whitman File

Papers of Dwight D. Eisenhower as President, 1953–1961, maintained by his personal secretary, Ann C. Whitman. The Whitman File includes the following elements: the Name Series, Dulles-Herter Series, Eisenhower Diaries, Ann Whitman (ACW) Diaries, National Security Council Records, Miscellaneous Records, Cabinet Papers, Legislative Meetings, International Meetings, Administration Series, and the International File.

Columbia University, New York, New York

Columbia University, Oral History Program

Oral History Program at Columbia University.

Cornell University, Ithaca, New York

Cornell University, Oral History Program

Oral History Program at Cornell University.

Ohio Historical Society, Bricker Papers

Papers of John W. Bricker, 1939–1959, including materials pertaining to his service as U.S. Senator from Ohio, 1947–1958 and particularly to the Bricker Amendment.

Princeton University, Princeton, New Jersey

Princeton University, Corwin Papers

Papers of Samuel Edward Corwin, Professor of Jurisprudence at Princeton University, including files related to his service 1953–1956, as chairman of the Committee for the Defense of the Constitution, an organization opposed to the Bricker Amendment.

Princeton University Library, Dulles Papers, Appointment Book

Daily log of Secretary of State Dulles' meetings and appointments for the years 1953–1959.

Princeton University Library, Phleger Collection

Material collected by Herman Phleger, Legal Advisor of the Department of State, relating to the Bricker Amendment and the treatymaking power of the United States, 1952–1956.

LIST OF ABBREVIATIONS AND SYMBOLS

EDITOR'S NOTE—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurrence which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

A, Office of the Assistant Secretary of State for Administration
A/, series indicator for documents of the General Assembly of the United Nations
A/C.6/L, series indicator for documents of the Sixth Committee of the General Assembly of the United Nations
A/CN.4, series indicator for documents of the International Law Commission of the General Assembly of the United Nations
A/MS, Management Staff, Bureau of Administration, Department of State
ACEP, Advisory Committee on Export Policy
AEC, Atomic Energy Commission
A.F. of L., American Federation of Labor
AG, Attorney General
AIOC, Anglo-Iranian Oil Company
AMC, Additional Measures Committee of the United Nations (for prosecution of the Korean war)
AMP, additional military production
AOA, American Overseas Airlines
AR, Annual Review (of North Atlantic Treaty Organization force levels and goals)
AR, Office of Regional American Affairs, Department of State
ARA, Bureau of Inter-American Affairs, Department of State
ARAMCO, Arabian American Oil Company
AV, Aviation Policy Staff, Department of State
B.A., Bricker Amendment
B/D, barrels (of oil) per day
BL, Black List (an export control measure)
BNA, Office of British and Northern European Affairs, Bureau of European Affairs, Department of State
BOB, Bureau of the Budget
BOP, balance of payments
BOT, Board of Trade (British)
C, Office of the Counselor, Department of State
CA, circular airgram
CA, Office of Chinese Affairs, Department of State
CAA, Civil Aeronautics Administration
CAB, Civil Aeronautics Board
CB, Companion of the Bath (British)
CBE, Order of the British Empire
CEA, Council of Economic Advisers
CF, Conference folder
CFEP, Commission on Foreign Economic Policy (Randall Commission)
CFEP, Council on Foreign Economic Policy
CG, Coast Guard
CG/COCOM (CG/CO.COM), Coordinating Committee of the Paris Consultative Group of nations working to control export of strategic goods to Communist countries
CHINCOM, China Committee, a permanent working group of the Paris Consultative Group of nations working to control export of strategic goods to Communist countries
CIA, Central Intelligence Agency
C.I.O., Congress of Industrial Organizations
circagam, circular airgram
cirtel, circular telegram
CMC, Collective Measures Committee, United Nations
CMG, Companion of St. Michael and St. George (British)
COCOM, Coordinating Committee on export controls, located in Paris
COD, cash on delivery
CP, Commercial Policy Staff, Bureau of Economic Affairs, Department of State

CP, Contracting Party to GATT
CSAGI, *Comité Spécial de l'Anée Géophysique Internationale* (Special Committee on the International Geophysical Year)
CSC, Coal and Steel Community
CY, calendar year
D, member of the Democratic Party in the United States
Dem, Democrat; Democratic Party
Depcirctel, circular telegram originating in the Department of State
DepSecDef, Deputy Secretary of Defense
Dept, Department (usually the Department of State)
Deptel, Department of State telegram
DMB, Defense Mobilization Board
DMS, Director of Mutual Security
DOD, Department of Defense
DOT, dependent overseas territory
DSA, Defense Shipping Authority
DSO, Companion of the Distinguished Service Order (British)
Dulte, series indicator for telegrams from Secretary of State Dulles while away from Washington
E, Bureau of Economic Affairs, Department of State
ECA, Economic Cooperation Administration
ECE, Economic Commission for Europe
ECOSOC, Economic and Social Council of the United Nations
ED, Investment and Economic Development Staff, Office of Financial and Development Policy, Department of State
EDAC, Economic Defense Advisory Committee
EDC, European Defense Community
EDT, Office of Economic Defense and Trade Policy, Department of State
EE, Office of Eastern European Affairs, Department of State
Embdes, Embassy despatch
EPU, European Payments Union
ERP, European Recovery Program
EUR, Bureau of European Affairs, Department of State
EUR/RA, Office of European Regional Affairs, Bureau of European Affairs, Department of State
E–W, East-West
EWT, East-West Trade
Excon, series indicator for telegrams, airgrams, and despatches dealing with export controls
Exim (Eximbank), Export-Import Bank of Washington
FAO, Food and Agriculture Organization of the United Nations
FBO, Division of Foreign Buildings Operations, Department of State
FCC, Federal Communications Commission
FCN, Friendship, Commerce, and Navigation (treaty)
FE, Bureau of Far Eastern Affairs, Department of State
FOA, Foreign Operations Administration
FTC, Federal Trade Commission
FY, fiscal year
GA, General Assembly of the United Nations
GATT, General Agreement or Tariffs and Trade
GNP, gross national product
GOP, Grand Old Party, Republican Party
H, Office of the Assistant Secretary of State for Congressional Relations
HICOG, United States High Commissioner for Germany
H.J. Res., House of Representatives Joint Resolution
HMG, His (Her) Majesty's Government
H.R., designation for legislation introduced in the House of Representatives
IAC, Intelligence Advisory Committee
IBRD, International Bank for Reconstruction and Development (commonly known as the "World Bank")
IC, Division of International Conferences, Department of State
ICAO, International Civil Aviation Organization
ICCTU, International Confederation of Christian Trade Unions
ICDV (IC/DV), Import Certificate and Delivery Verification
Ice, Iceland
ICEM, Intergovernmental Committee for European Migrants
ICFTU, International Confederation of Free Trade Unions
I.C.J. (ICJ), International Court of Justice
IDAB, International Development Advisory Board
IFC, International Finance Corporation
IGY, International Geophysical Year
IIA, International Information Agency
IIAA, Institute of Inter-American Affairs

ILC, International Law Commission of the United Nations General Assembly
ILO, International Labor Organization
IMF, International Monetary Fund
INR, Bureau of Intelligence and Research, Department of State
IRO, International Refugee Organization
ITO, International Trade Organization
IWG, Intelligence Working Group (of the Economic Defense Advisory Committee)
JCS, Joint Chiefs of Staff
L, Office of the Legal Adviser, Department of State
L/E, Office of the Assistant Legal Adviser for Economic Affairs, Department of State
L/SFP, Office of the Assistant Legal Adviser for Special Functional Problems, Department of State
L/T, Office of the Assistant Legal Adviser for Treaty Affairs, Department of State
MAAC, Military Assistance Advisory Committee
MAAG, Military Assistance Advisory Group
MAP, Military Assistance Program
MDA, Mutual Defense Assistance
MDAP, Mutual Defense Assistance Program
ME, Middle East
MEA, Middle East Airlines Company
MEDO, Middle East Defense Organization
MFN, most favored nation
MSA, Mutual Security Agency; Mutual Security Act
MSP, Mutual Security Program
MSTS, Military Sea Transport Service
MTSAC, Mutual Trade Security Advisory Committee
MWM, metalworking machinery
NA, Office of Northeast Asian Affairs, Bureau of Far Eastern Affairs, Department of State
NAC, National Advisory Council on International Monetary and Financial Problems
NAT, North Atlantic Treaty
NATO, North Atlantic Treaty Organization
NE, Office of Near Eastern Affairs, Department of State
NEA, Bureau of Near Eastern, South Asian, and African Affairs, Department of State
NGRC, National Government of the Republic of China
niact, night action, communications indicator requiring attention by the recipient at any hour of the day or night
NIE, National Intelligence Estimate
NSC, National Security Council
NSRB, National Security Resources Board
O/FE, Office of Far Eastern Operations, Foreign Operations Administration
OAS, Organization of American States
O.B.E., Officer Order of the British Empire
OBF, Office of Budget and Finance, Department of State (to June 1953)
OCB, Operations Coordinating Borad
ODM, Office of Defense Mobilization
ODMS, Office of the Director of Mutual Security
OEEC, Organization for European Economic Cooperation
OFD, Office of Financial and Development Policy, Department of State
OIR, Office of Intelligence Research, Department of State
OIR/GE, Special Adviser on Geography, Office of Intelligence Research, Department of State
OIT, Office of International Trade, Department of Commerce
OMP, Office of International Materials Policy, Department of State
OSD, Office of the Secretary of Defense
OSP, offshore procurement
P, Bureau of Public Affairs, Department of State
PAA, Pan American World Airways, Inc.
PAB, Public Advisory Board for Mutual Security
PAC, Permanent Agricultural Committee (of ILO)
PAD, Petroleum Administration for Defense
PBOS, Planning Board for Ocean Shipping, NATO
PC, participating country (in COCOM)
PED, Petroleum Policy Staff, Bureau of Economic Affairs, Department of State
PIC, Public Information Committee
PICMME, Provisional Intergovernmental Committee for the Movement of Migrants from Europe
PL, Public Law

POC, Psychological Operations Coordinating Committee (to September 1953)
POL, petroleum, oil, lubricants
Polto, series indicator for telegrams from the United States Permanent Representative at the North Atlantic Council
Pres, President
PSA, Office of Philippine and Southeast Asian Affairs, Bureau of Far Eastern Affairs, Department of State
PSB, Psychological Strategy Board
PSF, President's Secretary's Files
QC, quantitative controls
QR, quantitative restrictions
R, member of the Republican Party in the United States
R, Office of the Special Assistant for Intelligence, Department of State
RA, Office of European Regional Affairs, Bureau of European Affairs, Department of State
res, resolution
RFC, Reconstruction Finance Corporation
RN, Royal Navy (British)
ROK, Republic of Korea
S., designation for legislation introduced in the United States Senate
S/ISA, Director for International Security Affairs, Department of State (abolished in 1951)
S/MSA, Special Assistant to the Secretary of State for Mutual Security Affairs
S/P, Policy Planning Staff, Department of State
S/S, Executive Secretariat, Department of State
SA-M, Special Assistant to the Secretary of State for Press Relations
SC, Security Council of the United Nations
SCAP, Supreme Commander, Allied Powers, Japan
SE, Special Estimate
SEATO, Southeast Asia Treaty Organization
SEC, Securities and Exchange Commission
SFRC, Senate Foreign Relations Committee
SHAPE, Supreme Headquarters, Allied Powers, Europe
S.J. Res., Senate Joint Resolution
SOA, Office of South Asian Affairs, Bureau of Near Eastern and South Asian Affairs
SRE, United States Special Representative in Europe
STEM, United States Special Technical and Economic Mission
SUNFED, Special United Nations Fund for Economic Development
TAC, Technical Assistance Committee, United Nations
TAC, Trade Agreements Committee (Interdepartmental Committee on Trade Agreements)
TAC, Transit Authorization Certificate
TCA, Technical Cooperation Administration
Tedul, series indicator for telegrams to Secretary of State Dulles while away from Washington
Topol, series indicator for telegrams to the United States Permanent Representative at the North Atlantic Council
TRC, Office of Transport and Communications Policy, Department of State
TWA, Trans World Airlines, Inc.
U, Office of the Under Secretary of State
U/FW, Office of the Special Assistant to the Under Secretary of State (Fisheries and Wildlife)
UN, United Nations
UNA, Bureau of United Nations Affairs, Department of State
UNAMC, United Nations Additional Measures Committee (for prosecution of the Korean war)
UNE, Office of United Nations Economic and Social Affairs, Department of State
UNESCO, United Nations Educational, Scientific and Cultural Organization
UNETAP, United Nations Expanded Technical Assistance Program
UNICEF, United Nations International Children's Emergency Fund
UNKRA, United Nations Korean Reconstruction Agency
UNRWA, United Nations Relief and Works Agency
UnSecState, Under Secretary of State
UNTA, United Nations Technical Assistance
ur, your
USA, United States Army
USAF, United States Air Force
U.S.C., United States Code
USDel, United States Delegation
USEUCOM, United States Army, European Command
USG, United States Government

USIA, United States Information Agency
USIE, United States Information and Educational Exchange Program
USIIA, United States International Information Agency
USIS, United States Information Service
USN, United States Navy
USOM, United States Operations Mission
USRO, Office of the United States Special Representative in Europe
USUN, United States Mission at the United Nations
VOA, Voice of America
VOR, very high frequency omnidirectional range
WE, Office of Western European Affairs, Bureau of European Affairs, Department of State
W.H., White House
WHO, World Health Organization, United Nations
WL, White List (export control measure)
WP, Working Party (member of intersessional committees set up under GATT)

FOREIGN POLICY ASPECTS OF ADMINISTRATIVE TRANSITION: NOVEMBER 1952–JANUARY 1953

711.00/11-552

Memorandum by the Secretary of State of a Meeting With the President [1]

SECRET

WASHINGTON, November 5, 1952.

Subject: Liaison with the New Administration

I went over with the President the matter of the urgent need for liaison with the incoming Administration. I mentioned the topics listed in Mr. Nitze's memorandum [2] as some of the instances where we were being forced daily to make decisions with which the next Administration would have to live and the resulting need for consultation with them.

I reminded the President that Mr. Lovett had already spoken about a similar need in the Defense Department and I felt sure that the same situation existed in the Treasury. The President thoroughly agreed and told me that he had already sent a telegram to General Eisenhower asking him to appoint a liaison officer to work with the Bureau of the Budget on the budget which would have to go to Congress not later than January 18. He showed me a telegram from General Eisenhower accepting this suggestion.[3]

The President then went over with me another telegram which he will send to General Eisenhower and release this afternoon asking the General to meet with him in the White House in the next few days to arrange the broader question of liaison and the transfer of power from this Administration to the next.[4] He hoped

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[1] A notation on the source text indicates copies were sent to Under Secretary Bruce, Deputy Under Secretary Matthews, and Deputy Under Secretary for Administration Humelsine. A copy of this memorandum is also in the Secretary's Memoranda of Conversation, lot 65 D 238.

[2] The reference memorandum cannot be further identified.

[3] Neither telegram has been found in Department of State files.

[4] President Truman sent a very brief telegram along the above lines to President-elect Eisenhower on Nov. 5, 1952. The text of this telegram was released by the White House the same day and is printed in the Department of State *Bulletin*, Nov. 17, 1952, p. 771, along with the footnoted information that President-elect Eisenhower telegraphed his acceptance of President Truman's suggestion on Nov. 6, proposing that a meeting be arranged for sometime during the week of Nov. 17. The texts of both the Truman telegram of Nov. 5 and General Eisenhower's reply of Nov. 6

Continued

that the General would accept this invitation and said that if and when he did, he would ask me to return from New York[5] and have Mr. Lovett, Mr. Snyder, Mr. Lawton and me meet with him and General Eisenhower to discuss the whole problem. If he does not get a reply, he will address another communication to the General.

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are printed in *Mandate for Change* (Garden City, N. Y., 1963), p. 84, along with the information that upon conclusion of this exchange Eisenhower appointed Joseph Dodge, who would become his first Director of the Budget, and Senator Henry Cabot Lodge, recently defeated for reelection in Massachusetts by John F. Kennedy and Eisenhower's first Representative to the United Nations, as liaison team with the outgoing Truman Administration.

[5] Secretary of State Acheson had been attending the Seventh Session of the U.N. General Assembly.

Eisenhower Library, Eisenhower papers, Whitman file

The President to President-elect Eisenhower[1]

TOP SECRET WASHINGTON, November 6, 1952.

DEAR GENERAL: Following up my telegram of yesterday afternoon,[2] I had a consultation with State, Treasury, Defense and Budget.

There are some really fundamental things pending before the United Nations that must be met in a positive manner. I wish you would suggest somebody, in addition to the person who is to talk to the Budget Director,[3] to discuss these matters authoritatively with the Secretary of State, the Secretary of the Treasury, and the Secretary of Defense.[4]

There is a resolution pending on Korea in the United Nations.

The Iran problem[5] is an extremely delicate one and affects our relations with Great Britain.

The Tunisian problem[6] is also in that same class and affects our relationship with France and South Africa.

There is a National Security Council problem pending regarding the allocation of resources. A preliminary report is due November 15th.

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[1] This letter is addressed to the President-elect in care of the Augusta National Golf Course and bears the typed notation *"To be delivered to Addressee only."*

[2] See footnote 4, *supra*.

[3] Frederick J. Lawton.

[4] Dean Acheson, John W. Snyder, and Robert A. Lovett, respectively.

[5] Reference is to the nationalization of the Anglo-Iranian Oil Company by the Government of Iran. For documentation on this issue, see volume X.

[6] Reference is to the Tunisian effort to obtain independence from France which was taken to the United Nations. For documentation on this matter, see volume XI, Part 1, pp. 665 ff.

All these things are vital policy matters which can only be decided by the President of the United States but I would prefer not to make firm decisions on these matters without your concurrence, although the decisions will have to be made. These things affect the whole American policy with regard to the free world.

If you could designate someone to act authoritatively for you, or come yourself to sit in on these meetings, it would be the proper solution to the problem.

Sincerely yours,

HARRY TRUMAN

Editorial Note

On November 7, 1952, NSC Executive Secretary James S. Lay, Jr., submitted to the National Security Council a three-volume study entitled "Current Policies of the Government of the United States of America Relating to National Security." In a covering memorandum, he stated that "These volumes have been assembled for the information of the President and the President-elect in order to present briefly the current policies of the United States relating to the national security as approved by the President upon the advice of or acting with the National Security Council." He also noted that all statements on policy implementation had been formally coordinated "at the working level within and between the departments and agencies responsible for their implementation, but they cannot be considered as cleared, formal, or complete statements." The three-volume study is in the Truman Library, Truman papers, PSF–Subject file.

Secretary's Staff Meetings, lot 63 D 75, Notes 61–120

Notes on the Secretary's Staff Meeting, Thursday, November 13, 1952[1]

[Extract]

SECRET [WASHINGTON.]

SM N–83

. . . . . .

[1] The identity of the drafting officer and the date drafted are not indicated on the source text; the source text does indicate that the meeting began at 9:30 a.m.

Liaison Arrangements with New Administration

3. Mr. Bruce reported that Senator Lodge[2] will be in Washington tomorrow. Mr. Bruce plans to talk with the Senator either this weekend or the first of next week. At the present time it is difficult to determine how Senator Lodge will want to establish liaison arrangements with State.

4. Mr. Thorp pointed out that there are two kinds of problems involved. One type includes problems which require immediate decisions prior to January 20. The other type is the group of problems which are not ready for a decision now but which a new Administration should study as soon as possible. He cited the reciprocal trade agreements act as an example and pointed out that the new Administration needs to do some thinking on this problem at an early date. Mr. Bruce pointed out that the most important problems, such as Korea, Iran, UN, etc., will be covered by briefing material for the Tuesday meeting between President Truman and President-elect Eisenhower.[3] Unless Senator Lodge is prepared to organize a staff to go into the various departments, we could not do much more than this at the present time. Mr. Bruce felt that the arrangement with Lodge was a temporary one, but we must first find out what he has in mind before we begin preparation of materials. Mr. Nitze felt that on problems other than the most urgent ones, initiative should come from Senator Lodge for information or consultation.

5. Mr. Johnson stated that Joseph Dodge[4] has told him that he has been instructed by Eisenhower to merely observe and not to agree or disagree with decisions being made by the present Administration. Mr. Bruce stated that we will tell Senator Lodge that we will cooperate any way possible. He stated that it will depend to a considerable extent on whether Senator Lodge has a staff, whether he operates in the State Department, whether we furnish the staff for him, and many other factors.

6. Mr. Sandifer stated that there was a ticker report yesterday which indicated that President-elect Eisenhower will see Senator Wiley the week of November 25. The report suggested that Senator Wiley would be used as the channel on consultation for the new Administration on UN problems. Mr. Bruce pointed out that the President will deal directly with Eisenhower on some of the major UN problems, but it was Eisenhower's prerogative to designate any person he desired for liaison arrangements.

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[2] Representative-designate of the United States to the United Nations.

[3] See the memorandum of the meeting at the White House between the President and General Eisenhower, Nov. 18, 1952, p. 22.

[4] Director-designate of the Budget.

7. Mr. Riddleberger suggested that there was a third category of problems and those would include decisions which are being made now but not of major importance. Action on some of these will have been completed by January for submission to the next Congress. He stated that the debt conference was a problem in this category. Mr. Bruce pointed out that the present Administration could not abdicate its responsibilities and would have to continue to operate. He asked that Mr. Riddleberger furnish him a memorandum on the subject of the debt conference.

8. Mr. Miller stated that there were problems which require immediate attention in the Latin American area but are not of sufficient importance to warrant Senator Lodge's personal attention. These problems are important for Mr. Miller's successor. He stated that the Inter-American Economic Conference scheduled for February 9 is one in this category.

9. Mr. Bruce suggested that all of the offices of the Department should prepare a description of the problems which the new Administration will be facing soon after January 20. These descriptions, as well as a listing of all problems which are not of such immediate importance, should be submitted to Mr. McWilliams. The memoranda should be prepared in two parts: (a) a description of the problems which the new Administration will face during the first two months of office; and (b) a list of problems which the new Administration will face during the remaining part of the fiscal year.

. . . . . .

PPS files, lot 64 D 563, "Administrative Transition."

Paper Prepared in the Department of State [1]

TOP SECRET [WASHINGTON, undated.]

OUTLINE FOR SECRETARY'S USE IN BRIEFING GENERAL EISENHOWER
NOVEMBER 18, 1952

KOREA [2]

Fundamental Character of Repatriation Issue [3]

In relation to cleavage between West and Kremlin—noting Vishinsky's spurning of idea individual welfare and choice of loyalties as valid considerations.

In relation to the mixed character of the struggle in Korea as both an international and a civil conflict.

Position of UN Command (i.e., U.S.)

Firm position as to no forcible repatriation stated last spring, with general attitude of firmness on principle and flexibility as to mode of effectuating it.

Recess of negotiations at Panmunjon on Oct. 8 at instance of UNC pending acceptance of any one of UNC proposals or proffering of an alternative by Communists.

The Issue in the General Assembly

UNC position—strongly supported by all UNC participants and opposed by no non-Communist government—brought into focus before General Assembly in resolution put forth by U.S. and 20 other sponsoring governments after intensive diplomatic preparation—with purposes

To maximize pressure on Communists to come to terms on apparent last obstacle to armistice in Korea.

To get explicit endorsement of UNC (i.e., U.S.) position.

Negotiating position in General Assembly now very fluid in consequence of other proposals, put forth formally or broached informally among delegations.

U.S. attempting to steer these along courses most useful in buttressing our position—willing to accept any form consistent with the fundamental principle at stake.

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[1] The source text does not indicate the identity of the drafting officer(s) or Bureau(s), nor the date drafted. A copy of this paper is also in the PPS files, lot 64 D 563, "Record Copies."

[2] For documentation on Korea, see volume XV.

[3] This and all the other italic headings in this document are sidenotes on the source text, presumably for the Secretary's easy reference.

Question of Policy of Incoming Administration

President-elect's trip to Korea as an occasion for uncertainty among some delegations as to continuity of U.S. adherence to the main principle.

Concern among some delegations as to continuity of practice of consulting participants in regard to major decisions as to Korea.

Exploitation of this situation by Communist and neutralist delegations.

Of great possible assistance in meeting this situation—a statement by [4] the President-elect—

implicitly recognizing UN aspects of action in Korea
supporting efforts now being made by U.S. Government in General Assembly.

Offer of Assistance

Department's readiness to make available to the President-elect or his designated representative, Senator Lodge, full information as to—

Relationships of U.S. with UN and principal allies of UNC.
The disturbed domestic situation in Korea.

THE IRAN PROBLEM [5]

The Sequel to Nationalization in Iran

Social unrest in light of nonfulfillment of expectations following take over of British oil properties.

Budgetary difficulties due to loss of oil revenues, with consequences of inflation, curtailment of public works, and signs of serious demoralization among payless army and public servants.

Persistence in the Government of suspicion of motives, misunderstanding of the facts of life in the marketplace, and intransigence toward the U.K.

Necessity of a Settlement

Need to get oil flowing again to revivify the Iranian economy.

Danger of increasing its vulnerability to Soviet penetration, whether by direct interposition or by subversion.

Importance in strategic position in resources.

The British Attitude

Importance of issue to U.K. from standpoint of

Prestige.

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[4] The following typewritten footnote appears at this point in the source text: "*Note to Secretary:* Draft attached after page 18 for use in event General Eisenhower asks for it." For the draft under reference, see p. 12.

[5] For documentation on Iran, see volume x.

Fiscal factors.
Danger as example to others if nationalization is rewarded.

Need for U.S. to keep good relations with principal Atlantic ally as a limit on action in seeking settlement and in avoiding budgetary aid to Iran pending satisfaction of British claims.

U.S. Course

One unrealistic possibility—no action in hope hardship would soften Iranians.

Another unrealistic possibility—buying time by giving budgetary aid, a lane that might have no ending.

The course chosen—to seek a solution and incidental to solution to provide funds to bolster Iranian Government pending adequate revenues from oil flow;

This course envisaging

Settlement of the compensation issue by agreed lump sum payment on Iranian initiative (alternative to British demand of compensation set by arbitration).

Commercial arrangements to handle Iranian oil either by AIOC alone, by AIOC with several major U.S. companies, or by U.S. companies alone.

Advance to Iranian Government of up to $100,000,000 available under Defense Production Act.

Foreign Oil Policy and Anti-Trust Laws [6]

Possible participation of U.S. oil companies in arrangements for handling Iranian oil a matter of bringing into focus broad question of application of U.S. anti-trust policies.

Possible necessity of a restudy of oil policies by a high level commission, either within Government or with participation of public interest groups.

PROBLEMS RAISED BY ISSUE OF STATUS OF MOROCCO AND TUNISIA ON GENERAL ASSEMBLY AGENDA [7]

Status of Problem

Distinguishing between problem of competence and problem of substance.

Not yet reached on GA agenda.

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[6] For documentation on foreign oil policy and the foreign policy aspects of anti-trust legislation, see pp. 817 ff. and 1259 ff.

[7] For documentation on Morocco and Tunisia, see vol. XI, Part 1, pp. 599 ff. and 665 ff.; for documentation on U.N. affairs, see volume III.

Arab-Asian Attitude

Seeking to use UN and all other means as fulcrum for prying loose colonial areas.

Pressing for full independence of areas concerned.

The French Attitude

Firmness in denial of General Assembly's competence.

Refusal to be bound by General Assembly actions.

These reflecting of French sensitivity as to future of position in North Africa.

Relation to French fears of greater disparity of power in relation to Germany.

Suspicion of U.S. as covert ally of anti-colonialists.

In French view, greatest single issue in international field.

Problem in U.S. View

U.S. deeply concerned in need of sound relations with—

France and other NATO allies.

Also Arab and Asian areas where we have strong strategic and political interests.

No apparent way of reconciling—and even no apparent way of satisfactorily balancing—these conflicting pulls.

PROBLEMS RAISED BY ISSUE OF RACIAL POLICIES OF UNION OF SOUTH AFRICA ON AGENDA OF GENERAL ASSEMBLY[a]

Present Status

Problem placed on agenda by 13 Arab and Asian States.

Now before *Ad Hoc* Political Committee.

Issues and Dilemmas

In relation to human rights—

Question of competence under Article 2 (7) of Charter—

Issue of any discussion at all.

Issue as to whether resolution directed to one state is proper.

In relation to future and effectiveness of UN.

Possibility in face of adverse vote of South Africa quitting UN or withdrawing air squadron from UNC.

Twin dangers: reducing GA to desuetude or making it a forum for interference without responsibility.

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[a]For documentation on U.S. relations with the Union of South Africa, see vol. XI, Part 1, pp. 902 ff.

U.S. Position

U.S. pressed by desires to keep friendly relations with anti-imperialist Arab-Asian bloc and with South Africa and to avoid excessive stresses on UN structure.

Initial view—now abandoned—of seeking International Court of Justice opinion on jurisdiction.

Efforts—still unavailing—to get mild, generalized resolution.

Intention to abstain on vote of competence and on final vote (unless resolution is positively harmful—in which event U.S. will vote no).

PROBLEMS IN NATO[*]

Issue Whether To Hold Dec. 15 Council Session

First session since Lisbon.

Purposes—

Several items of routine business.

Approval of study on Soviet foreign policy in light of recent developments.

Most important—the Annual Review to reconcile requirements and capabilities so as to set—

Firm force goals for 1953—an exigent matter in U.S. view.

Sketchy force goals for 1954—a highly important matter in U.S. view.

Prospect of useful meeting as of Dec. 15 fading because of lag in Annual Review preparations due (in Ambassador Merchant's view) to flagging leadership in International Staff and passive resistance in other delegations.

Choice between

Unsatisfactory meeting.

Troublesome delay with perhaps further loss of momentum.

Prospective Future Meetings

Soon after start of new Administration—a meeting to complete the Annual Review.

Possibly a fall meeting—

To consider results of studies of new weapons and tactics.

To weigh maintenance and replacement costs.

To acquaint European allies with general posture of new Administration—a matter of such interest that others may press for such an additional meeting even in late spring.

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[*] For documentation on NATO, see vol. v, Part 1, pp. 1 ff.

DEVELOPMENT OF THE EUROPEAN DEFENSE COMMUNITY [10]

Importance of Undertaking

Prompt ratification as only developed formula for introducing German forces into defense of West essential to NATO program.

Integral also to whole effort at European integration, thus bound with eventual success of Schuman Plan and Political Community.

Status and Prospects as to Ratification

France—

Issue linked to Saar, North Africa, Indochina, and fear of German ascendancy.
Outcome uncertain.
No final action till February or maybe March.

Germany—

Bundestag approval expected this month.
Final action, contingent on a court ruling, expected in about two months.

Italy—

Vote awaiting action on other legislation.
Final prospect favorable.

Belgium—

Government not yet taking strong favorable line.
Linking issue to question of uniform conscription period.
No prospect of action until after France.

Netherlands—

Ratification in December in prospect.

Luxembourg—

Attitude generally linked to Belgium's.

Planning Function

EDC Interim Commission at work in strict secrecy.
Not yet effective in its work—

Too much preoccupation with charts.
Not enough attention to substance.
Lacking in adequate authorizations.

United States Attitude

As to ratification—

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[10] For documentation on the European Defense Community, see vol. v, Part 1, pp. 571 ff.

Interested but not pressing as this is something of vital concern to Europeans themselves.

Not disposed to be jockeyed into buying ratification by giving concessions on remote problems.

Importance of encouragement by U.S. statements without giving appearance this is a U.S. scheme.

As to getting more effective planning—

U.S. observers seeking to encourage more attention to production plans and German build-up.

Next NATO meeting as opportunity to push for wider authorization for Interim Commission.

ALLOCATION OF U.S. RESOURCES (NSC 135)[11]

Purpose and Status of NSC 135

One in a series of studies generally familiar to General Eisenhower, previous ones being NSC 20 (1948), NSC 68 (1950), and NSC 114 (1951).[12]

Specific questions as to which answers are sought:

Adequacy of free world needs increasing in level of programs and forces to cope with threats.

Appropriateness of present balance between military and economic aid.

Appropriateness of present allocation as between U.S. and other free world forces.

Appropriateness of allocations by areas—Far East, Middle East, and Europe—in relation to U.S. security and commitments.

Progress to Date

Commencement of study directed by President in September.

Agreement on terms of reference by State–Defense–MSA Steering Group in September.

Work on all phases now well on way.

Deadline for completion directed by President—January 1, 1953.

SUGGESTED DRAFT STATEMENT BY GENERAL EISENHOWER

It should be clear that the sole purpose of my visit to Korea will be to obtain that understanding of a complex situation which can

[11] NSC 135, "Status of U.S. Programs for National Security as of June 30, 1952," a collection of eight reports submitted to the NSC Aug. 6–22, 1952, was noted at the 122d Meeting of the National Security Council on Sept. 3, 1952. For information on NSC 135, see volume II.

[12] NSC 20, "Appraisal of the Degree and Character of Military Preparedness Required by the World Situation," July 12, 1948, is printed in *Foreign Relations*, 1948, vol. I, Part 2, p. 589; NSC 68, "U.S. Objectives and Programs for National Security," Apr. 14, 1950, is printed *ibid.*, 1950, vol. I, p. 234; NSC 114/1, "Status and Timing of Current U.S. Programs for National Security," Aug. 8, 1951, is printed *ibid.*, 1951, vol. I, p. 127.

come only from firsthand knowledge and observation. I intend to visit General Clark, Commander-in-Chief of the United Nations forces and other members of his command. I also hope to the extent practicable to visit the troops of the United States, the Republic of Korea and the many other nations, composing the United Nations Command, all of whom have fought so long and so valiantly for the vital principles at stake in that struggle. I also hope to see President Rhee and other members of the Government of the Republic of Korea whose land is being defended against this most brutal and callous aggression.

I know that with the knowledge and understanding thus obtained I will better be able to face those grave responsibilities I am about to assume.

I am following with close interest the progress of the discussion of Korea in the United Nations General Assembly and am in full agreement with the efforts being made there by the United States and other like-minded nations to support the long and patient efforts of the United Nations Command to bring about an armistice in Korea compatible with the conscience of all free people.[13]

[13] President-elect Eisenhower made no statement prior to his departure for Korea which was in fact kept from public knowledge. Eisenhower's own version of his trip to Korea is in *Mandate for Change*, pp. 93–96. Upon Eisenhower's departure from Korea on Dec. 5, 1952, the U.N. Command at Seoul issued a brief communiqué, the text of which is printed in the Department of State *Bulletin*, Dec. 15, 1952, pp. 948–949.

Truman Library, PSF–General file

Memorandum by the Assistant Secretary of State for European Affairs (Perkins) to the Director of the Executive Secretariat (McWilliams)[1]

SECRET [WASHINGTON,] November 14, 1952.

Subject: Paper on NATO for talks with the New Administration

In response to your request for a paper on NATO, there is attached a document prepared in RA which attempts to answer your three questions:

1. The nature of the December 15 meeting[2] and the problems it raises.
2. What could be accomplished at such a meeting?
3. When should there be a second meeting?

[1] Drafted by J. Graham Parsons of the Office of European Regional Affairs.

[2] Regarding the Tenth Session of the North Atlantic Council at Paris, Dec. 15–18, 1952, see the editorial note in vol. v, Part 1, p. 348.

As it has not yet been decided whether the December 15 meeting is in fact to take place, the situation is definitely subject to change and hence this paper must be regarded as tentative in many respects. It has been cleared with the Defense Department's Office of North Atlantic Treaty Affairs which will also prepare a paper on NATO for the talks with the new Administration.[3] It is understood that that paper will deal more specifically with force programs, and their relationship to the U.S. budgetary program for fiscal '54.

[Attachment]

Paper Prepared in the Office of European Regional Affairs[4]

SECRET [WASHINGTON,] November 14, 1952.

IMMEDIATE PROBLEMS FACING U.S. IN NATO

1. The Nature of the December 15 Meeting and the Problems it Raises.

The December 15 meeting of the North Atlantic Council is the first Ministerial meeting scheduled since the NATO reorganization agreed upon at Lisbon in February 1952.[5] If it is held, the delegations of the NATO countries will be headed by their Foreign Ministers, Defense Ministers and Finance or Economic Ministers. Up to the present the agreed objective of the forthcoming meeting and its principal item of business has been the completion of the Annual Review, that is to say the multilateral reconciliation of military requirements with realistic politico-economic capabilities.

Despite strenuous efforts on the part of the United States, commencing as long ago as April last, the Annual Review has progressed slowly and there is now a very serious question whether even the most limited objectives of the Review can be accomplished at the December 15 meeting. These limited objectives are (1) agreement on firm force goals for calendar 1953, including maintenance thereof, and (2) some indication, however sketchy, of provisional 1954 goals. Agreement on the former is obviously necessary at the earliest possible moment because 1953 is almost upon us and Government programs, including United States aid programs, must be established in order to place contracts and determine shipments of equipment. The latter is most desirable from the U.S. viewpoint in order to provide a sound basis for the request to Congress for fiscal

[3] The reference paper has not been found.

[4] Source text indicates J. Graham Parsons as drafting officer.

[5] For documentation on the Ninth Session of the North Atlantic Council at Lisbon, Feb. 20–25, 1952, see vol. v, Part 1, pp. 107 ff.

'54 appropriations for defense support, end-item assistance and offshore procurement for the NATO effort.

A recent telegram from our NATO Representatives in Paris reported a meeting of the Annual Review Committee which broke up early in the morning of November 11 after hours of wrangling over a proposal by the International Staff which proposed that at the December 15 meeting there should be only an interim report on 1953 force goals. Analyzing the situation, Ambassador Merchant reported:

"It is my considered opinion that given extent of active and passive resistance in other delegations and the lack of leadership in the International Staff, we cannot now achieve for consideration by the Ministers December 15th [meeting] an Annual Review report containing anything resembling firm force goals for 1953."

Mr. Merchant's analysis and its conclusions were concurred in by senior staff officers from Washington who have been in Paris the last several weeks for the critical stages of the Annual Review process. As a consequence of these recent developments, we are probably faced with the alternatives of a December 15 meeting at which little can be done on the Annual Review, or no meeting at all until the earliest feasible date in 1953. The Chairman of the North Atlantic Council, namely Mr. Kraft, Foreign Minister of Denmark, has called a meeting in New York for November 14 of those NATO Foreign Ministers who are currently there for the General Assembly. Out of this meeting should come the answer as to whether there is to be a December 15 meeting or not.

2. What Could be Accomplished at Such a Meeting?

The current position of the United States is that if the other NATO countries desire a December 15 meeting we will acquiesce. However, it is not at all clear as to which Cabinet ministers from the United States would be in attendance and this depends upon what kind of meeting the Ministers in New York agree to hold. The United States successfully resisted efforts to hold a Ministerial meeting in late September or October on the grounds that during the election campaign there were obvious difficulties which would have made it impracticable for the United States to participate. We therefore strongly supported the December 15 date for a meeting primarily focused on the relatively limited objectives related to 1953, for most of which financial provision has already been made in the fiscal 1953 budget. In taking this position, we recognized also that it would be difficult for a new Administration to take responsibility for a Ministerial meeting early in the new year.

Throughout the fall the United States has at all times been insistent on the necessity for establishing firm goals for '53 at the De-

cember 15 meeting. This pressure has been carried to the point where Ambassador Merchant has now been obliged to report that it is being increasingly resented. More generally also, our position must take account of general European attitudes which in recent months have been less favorable to the United States for a variety of reasons such as (1) the increasing unpopularity of an expensive rearmament program at a time when the Soviet threat, in European eyes at least, seems less acute, (2) the stationary or declining standard of living of certain major classes in Europe as contrasted with continued advances here, (3) European worries that the United States is preparing more to win a war against the USSR than to prevent a war, (4) resentment of legislative conditions attached to U.S. aid, (5) growing dissatisfaction with continued dependence on the United States, and (6) irritations at the multiplicity of U.S. officials—civilian and military—in Europe.

Under these circumstances, if, as seems probable, the other NATO partners desire to go through with the December 15 meeting, we shall probably have to make the best of it. Apart from routine business, of which there is a fair amount, such a meeting might be made to serve a useful purpose in connection with several other problems. Even if there can be no agreement on '53 force goals, the attention given to the 1953 buildup could be made to demonstrate once more the necessity of obtaining German rearmament at the earliest possible moment. As this can only be achieved following ratification of the EDC Treaty, and as France has been reluctant to face up to ratification, the meeting would serve to bring indirect pressure upon the French. Furthermore, to the degree that such pressure is effective, it would serve to promote the policy of European integration which has such strong bipartisan support in the United States.

Also, even though it may be decided that no decisions can be taken on the Annual Review, it should still be possible for Ministers to give a strong impetus in December to the AR process. One of the main difficulties being faced, on the basis of the country submissions thus far, is how to get the European countries to *reduce* their proposed force plans, which apart from those of the U.K. are generally unrealistic in terms of standards by which readiness of forces is measured, support requirements for troops and reserves of equipment.

Apart from the foregoing, there would be approved by the Ministers at Paris a new NATO study of Soviet foreign policy, which should help in laying the basis for the continued NATO effort. There will also be ready for approval a new "Strategic Guidance" prepared by the Standing Group which would aid in bringing up to date common NATO planning.

While it is being argued whether a meeting without substantial accomplishment on the Annual Review would provoke a better or worse public reaction than a cancellation of the NATO meeting, the preponderant view at the moment is that the loss of momentum, sense of failure and public disillusionment would be worse in the event of an outright cancellation of the meeting. This is all the more true if it can be established in advance that, as contemplated by the Lisbon meeting, NATO Ministers' meetings do not necessarily have to lead to spectacular achievement each time but should rather be accepted as normal periodic meetings of the nations of the Atlantic Community to discuss their common problems.

3. When Should There Be a Second Meeting?

It is obvious from what has been written above that the date and nature of the next meeting will be greatly influenced by the events of the next several days. If, as seems almost certain, there can be no agreement on firm force goals for '53 at the December 15 meeting, it will be necessary to hold a second meeting for this purpose at the earliest date which is practicable for the new Administration. The first of March would be in that event a most desirable target both from the standpoint of U.S. budgetary submissions to Congress and from the standpoint of the firming up of the 1953 effort of our other NATO partners.

Apart from the early 1953 meeting required to conclude the Annual Review, there will be need for at least one other meeting which might take place during the fall. This meeting would conclude the Annual Review for 1953. In connection with this, it has for long been contemplated that 1953 would be a year of general reassessment of the progress of the coalition, and of the composition and size of future NATO forces. At the present time studies are in progress at SHAPE to determine the effect of new weapons and new tactics for their use upon future military requirements. This study, which is awaited eagerly by our NATO partners in hopes that it may ease their burdens, should be ready by next summer. At the moment, it has been generally realized that the effects of new weapons development are not likely to affect the NATO buildup materially before 1956 at the earliest and would begin to show a substantial effect only later. With NATO forces still inadequate, the limited degree of additional buildup which can be achieved in 1953 and 1954 will be required in any event.

The autumn-1953 meeting would also have to face up to another major policy problem arising from the fact that we have now reached the point in building up modern forces where maintenance and replacement becomes an important and costly problem. Much of the modern equipment has been provided or financed by the

United States, and the incidence of replacement costs will become a pressing question next year. This in turn is related to consideration of whether the present forms of aid programs are to continue, or whether the continuing dollar gap in Europe and inadequate productivity there is to be combatted by other means, including the adoption of new United States economic policies. This meeting too will be awaited by the Europeans with particular concern as providing one of the first indications of the considered attitude of the new Administration towards the problems of Europe and the continued association of the United States with Europe for mutual security purposes. In fact, it is quite possible that because of this consideration the other NATO countries will press for an earlier interim meeting in the late spring to review progress, deal with political and economic questions and pave the way for the completion in the autumn of the 1953 Annual Review.

PPS files, lot 64 D 563, "Administrative Transition"

Paper Prepared by Charles Burton Marshall and John H. Ferguson of the Policy Planning Staff[1]

TOP SECRET [WASHINGTON,] November 14, 1952.

SUGGESTED OUTLINE FOR WHITE HOUSE CONFERENCE WITH THE PRESIDENT-DESIGNATE

1. The President and General Eisenhower Alone

The President might begin by setting forth his general reasons for suggesting the meeting:

Under our Constitutional System we have the periodic problem of a break in continuity of political authority and the continuing nature of the foreign policy problems which the Government faces.

The Constitution leaves the power and obligations of the presidential office on the out-going President until the inauguration of his successor. It does not permit the President to turn his powers over to another until he leaves office.

Any President-elect feels reluctant to be fastened with any of the political responsibilities of the office before taking on the legal powers as well.

In reviewing the experience with the problems of changing over Administrations, running back to 1796-97, it is clear that the pat-

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[1] A notation on the source text reads: "Copies given to [Special Presidential Assistant Charles S.] Murphy at W[hite] H[ouse]". Attached to another copy of this paper were several background papers on the specific topics of Korea, Iran, South Africa, and the allocation of national resources (NSC 135). (Truman Library, PSF–General file) The background papers appear to be restatements of the undated paper prepared in the Department of State for the Secretary's use in briefing President-elect Eisenhower, p. 6.

tern has varied with the attitude of the men concerned and with the prevailing situation in domestic and foreign politics.

This time there are particular differences from past experience. One of these differences results from the recent 21st Amendment which:

> Shortens the time for the old Administration to wind up its affairs and the new Administration to get ready,
>
> Eliminates the short-session of the Congress as an opportunity for a retiring Administration to wind up its legislative program,
>
> Eliminates the nine-month lag between the arrival of a new Administration and the convening of the new Congress.

The second and principal difference arises from the world situation—the scope and the urgency of the problems in foreign affairs. This last makes this meeting necessary. The President then might emphasize these points:

This Administration does not expect the new Administration to take on responsibilities prematurely.

On some emerging issues giving other nations assurance of the continuity of our policy might prove essential to success in our undertakings. In such cases it would obviously be good to have the concurrence of the new Administration. This, however, is something beyond the power of the present Administration to determine. In any such instance it would welcome concurrence but it would not press for it. It is realized that this is a matter on which the next President must make up his own mind.

The President might then say that he has invited the Secretaries of State, Defense and Treasury to join him and the General, but before they do so he would like to mention the subject of atomic energy.

The President may wish to explain to the President-elect that *atomic energy matters*[2] requiring his decision are referred in the first instance to a Special Committee of the National Security Council (the Secretaries of State and Defense and the Chairman of the Atomic Energy Commission) for consideration and appropriate recommendation to him. Among the problems which will require attention in the coming months is the complex of relations with the United Kingdom and Canada and the several raw material supplying countries, in the field of atomic energy. On the military side there is the specific question whether, and in what way, military information concerning atomic weapons should be shared with the NATO countries.

The President could then say that the Chairman of the Atomic Energy Commission will arrange at a later date to brief the Presi-

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[2] For documentation on atomic energy matters, see volume II.

dent-elect on the status of the United States atomic energy program.

2. The Larger Meeting

The President might open the larger meeting by stating briefly the purposes for this meeting:

The first purpose is to establish the framework for full understanding of our problems and our purposes in the interim until January 20 so as to avoid needless differences between the Administration and its successor and thus—

a. To show the world national unity in foreign policy as far as politically possible.

b. To maintain undiminished respect abroad for the power and influence of the United States as a nation.

c. To sustain confidence of allies and friends in the continuity of essential elements of our foreign policy in so far as it is possible and proper to do so.

d. To avoid special opportunities for the Kremlin to divide the United States and its allies and friends.

e. To deter the Kremlin from precipitating crises on the basis of misestimates of the unity and strength of purpose of the United States.

The second purpose is to do what can be done by this Administration in the interim to facilitate the initial work of the succeeding Administration by—

a. Giving opportunity to get the intimate perspective on the continuing and delicate aspects of our foreign relations.

b. Informing the President-elect and his principal subordinates with the developments in pertinent fields between now and the time for taking over.

The President might next make clear the following:

General Eisenhower's responsiveness in selecting Mr. Joseph M. Dodge and Senator Lodge to perform liaison functions with this Administration is welcome.

The Administration trusts that the liaison thus established on the most critical aspects of national policy can be continued and developed as progress is made in selecting the new Cabinet and other principal subordinates.

The Administration wants to do all it can to make this liaison helpful to the incoming Administration—to fill in the background on current problems, to make facilities available for informing the new Administration in advance on matters on which it may desire information in relation to the continuing problems—and at the same time to avoid bogging down the liaison with an excess of details.

This Administration will not so use the liaison function as to attempt to commit or even to sway the views of the incoming Admin-

istration. The attempt will be made to interpret the problems as we see them—but for information, not for persuasion.

The President might first take up the *Korean* situation, especially the armistice impasse, as the first of the topics on which status reports are appropriate at this time. The President might well emphasize that the Korean problem in particular, in regard to the prisoner repatriation issue, is one in which the prospect that the next Administration will uphold the stand taken by the present Administration has a direct bearing on the effectiveness of our position.

The Secretary of State might then review the Korean situation.

The President might then turn to the following topics in turn, calling on the Secretary of State or other appropriate subordinates for presentation of the details:

The problem of working out agreement between *Iran* and the United Kingdom so as to prevent an undermining of the Iranian position and thus to avoid a strategic defeat of the interests of the West.

The issues regarding the political status of *Tunisia and Morocco* and regarding tension in *South Africa,* especially the United Nations aspects.

Relations within *NATO,* especially the timing of the next meeting of the Council.

Status of proposed European Defense Community.

Progress on the assessment of future security requirements—*NSC 135.*

The President might then ask General Eisenhower for his views and suggestions regarding liaison between the present and the approaching Administrations.[3]

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[3] On Nov. 17, Under Secretary Bruce discussed with President Truman the issuance of some sort of statement following the meeting with Eisenhower. Truman indicated that while he had favored a White House press release "he would consider and probably adopt" Bruce's suggestion of a joint communiqué. (Secretary's Memoranda of Conversation, lot 65 D 238, "Memcons with the President") On Nov. 18, the day of the Truman-Eisenhower meeting, Secretary of Defense Lovett submitted a 15-page paper to the President "setting out . . . a series of notes on a variety of subjects in which the Office of the Secretary of Defense has or should have special concern." (Truman Library, Truman papers, PSF-Subject file)

Truman Library, PSF–General file

Memorandum by the Secretary of State of a Meeting at the White House Between the President and General Eisenhower[1]

SECRET [WASHINGTON,] November 18, 1952.

Present: President Truman, accompanied by Secretary Acheson, Secretary Lovett, Secretary Snyder, Mr. Harriman, Director of Mutual Security Agency.
General Eisenhower, accompanied by Senator Cabot Lodge, Mr. Joseph M. Dodge.

The President opened the meeting with the following statement:

"1. I have invited you gentlemen to meet with me here to establish the framework for full understanding of our problems and our purposes in the interim until January 20th.

"2. So far as our relations with other countries are concerned, I think it is important during this period to avoid needless differences between this Administration and its successor for several reasons.

"a) It will show the world national unity in foreign policy as far as politically possible.

"b) It will help to maintain respect abroad for the power and influence of the United States, and to sustain the confidence of our allies and friends in our foreign policy.

"c) It will help to check the Kremlin's efforts to divide the United States from its allies and friends, and it may help to keep the Kremlin from creating a crisis in the mistaken notion that we are divided or wavering in our purpose to preserve the unity of the free world.

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[1] The source text indicates the meeting began in the Cabinet Room at 2 p.m. The source text is attached to a memorandum from W. J. McWilliams, Director of the Executive Secretariat, to Special Assistant Charles Murphy which reads: "There are enclosed two copies of a memorandum prepared by Secretary Acheson of the meeting held in the White House on November 18 between President Truman and General Eisenhower. The President requested Mr. Acheson to prepare this memorandum for the President's record. The President's statement quoted on pages one and two has been conformed with the copy you sent me last night."

Department of State and Truman Library files indicate that President Truman asked at least two members of his administration to take notes at this meeting, Secretary Acheson and Director for Mutual Security Averell Harriman. Copies of the Acheson notes are in Department of State file 611.00/11-1852 and Secretary's Letters, lot 56 D 459, "Korea" and "Iran." No copy of the Harriman "Notes" of the meeting, which differ somewhat in both emphasis and particulars from those taken by Acheson printed here, have been found outside of the Truman Library.

The principals have all recorded their impressions of this meeting: Acheson in *Present at the Creation* (New York, 1969), p. 702; Eisenhower in *Mandate for Change*, p. 85; and Truman in *Years of Trial and Hope* (Garden City, N.Y., 1956), pp. 513-521.

"3. It is also my purpose to do what can be done by this Administration to facilitate the orderly transfer of our duties to our successors. I think that is in the best interest of the country.

"4. I want to make available to General Eisenhower and his associates the information that will be helpful to them in taking over the operation of the Government.

"5. It is not my purpose to try to shift responsibility for actions taken by the Government between now and January twentieth. I am going to follow the policies I believe to be right up until that time and I will take full responsibility for them.

"6. There are certain questions on which it might be very important to our foreign policy for General Eisenhower to express his views. But it is up to him to decide whether or not he will do so.

"*Liaison Arrangements*

"1. I welcome General Eisenhower's selection of Senator Lodge and Mr. Dodge to establish liaison with this Administration. We will give them our full cooperation.

"2. If General Eisenhower wishes to designate additional representatives from time to time, we will be glad to work with them also.

"3. We want to do all we can to help the incoming Administration by filling in the background on current problems and by making available in advance information concerning the problems you will have to deal with.

"4. It is not our purpose or intention to attempt to commit or bind the incoming Administration.

"5. All we are doing is trying to make a common-sense approach to the situation."

The President also stated that he and General Eisenhower had had a private conversation before coming into the Cabinet Room.

General Eisenhower asked whether the President would give him memoranda of these conversations. The President replied that he would.[2] He also handed to General Eisenhower the attached memorandum from the Secretary of the Treasury to the President.[3]

The President said that there were some pressing matters which he thought it was important for General Eisenhower to be informed about, and which he asked Secretary Acheson to take up.

Mr. Acheson said he would speak about a number of pressing matters where action was called for each day which would have important effects in the weeks and months following January 20, 1953. He would not speak about all such matters, but pick out the most important, in part for the information which the statement would contain, and also as illustrations of the necessity for expand-

[2] No memorandum of the private conversation between President Truman and President-elect Eisenhower has been found in the Department of State files or the Truman Library. However, Truman describes this 20-minute session in *Years of Trial and Hope*, pp. 514–515.

[3] Attachment 1 below.

ing the liaison between the Administrations already provided. He hoped that his remarks would underline the importance of having an increasing number of officers who would exercise responsibility after January 20 attached by the new Administration to the various Departments, so that they might be familiar with the developing situations for which they would have responsibility very soon. He said that, as the President had pointed out, this did not involve the assumption of responsibility, since these officers might or might not express any views on current matters. However, they would be informed about them and would have the opportunity to express any views which the new Administration wished to express.

1. *Korea.* A most serious situation was developing in New York. The debate with Vishinsky had ended in a very general acceptance of the idea that force should not be used to make prisoners return. Even Vishinsky was not willing to espouse the opposite principle. The course taken by the neutralist nations—India and Indonesia, etc.—was to circumvent this principle. In this they were strongly supported by the Canadians and British, and now had the support of the French and some others. The method of circumvention was very simple. The prisoners were to be turned over to a Commission. The Commission was not to use force on the prisoners, but the Commission was to repatriate the prisoners, and these men were to remain prisoners until repatriated. If the prisoners were not repatriated in three months they were to be turned over to a Political Conference which would undoubtedly continue the same process. The attempt here was to accept the words of the principle and still keep the result desired by the Communists—that is, the repatriation of the prisoners. The prisoners had no exit from captivity under the Commission except to be repatriated.

Certain clear results would flow from such a proposal if it were adopted. In the first place, we would obviously in the view of the entire world have repudiated our own principle. The circumvention was clear and obvious to all. In the second place, we would undoubtedly be called upon to use force against the prisoners to turn them over to a Commission, which, although it did not use force, would keep them in captivity until they returned home. In the third place, we would have a most precarious armistice, with the possibility of grave trouble arising in the prison camps. The Army would be deprived of all observation over enemy lines, of power to break up concentrations and to work over supply lines, and it would be unable properly to deploy the forces in the Command. The Communists would be free to rehabilitate air fields in North Korea. At any moment we might be charged with violating the ar-

mistice because the proposal regarding the prisoners was unclear and unworkable and almost certain to lead to misunderstandings.

Therefore, the situation in New York called for the most energetic action on the United States side to defeat or alter this attempted circumvention of the principle. This involved keeping aligned with us the British, French, and others. There was obviously a showdown coming. The attitude of the President and his Cabinet advisers was clear upon it. Therefore, if there were to be yielding, it could only be by those who were attempting to put through this new idea.

The debate would begin tomorrow, Wednesday. Voting on proposals might come as early as Saturday, but more probably next week. Any statement on this matter, supporting the view held by this Government, by General Eisenhower would be of the greatest possible assistance. The Secretary had prepared the sort of statement which would provide this assistance, and he handed it to Senator Lodge. (See attached statement)[4]

The Secretary also stated that he had informed the British, Canadians, and French that any division between them and us on this essential matter would have the gravest consequences here in the United States, through disillusionment regarding collective security. The consequences would not be confined to Korea, but would also have implications in NATO and other arrangements of the same sort.

2. *Iran.* Another situation had developed to a critical point. This was the dispute between Iran and the United Kingdom over oil. We had been trying for a year and a half to find a fair solution which would provide compensation for the British and allow oil to flow from Iran and funds to come to Iran. Both parties had been wholly unreasonable, but in different senses of the word. The Iranians were unreasonable in that they were not activated by reason but by emotion. The British were unreasonable in not seeming to understand this. They thought that by putting economic pressure on Iranians they would act as reasonable people might under the same circumstances. The result had been the opposite. The Iranians were more concerned with freeing the oil from British control than they were in the economic benefits which might come to them from the oil industry. This had already led to economic difficulties, to very grave disintegration both within the Iranian Government and within the Iranian social structure, and to a political break with the British, who had been expelled from Iran.

We were informed by our Ambassador that if the Iranians managed their affairs reasonably they might survive for as long as a

[4] Attachment 2 below.

year without selling oil and without major external help. However, they would not act reasonably in this situation. They would act emotionally, perhaps in stages break altogether their relations with the United States, discharge large numbers of public employees, who would add to the unrest of that country, and in a very short time bring the country to a state of chaos.

We were deeply disturbed at this prospect. The British seemed more concerned about the consequences of a settlement which differed from their desires because of the effects on British investments in other parts of the world. This had led to a fundamental difference of view. Although we had been working with the British for months, it seemed unlikely to us that persuasion would result in any workable solution in time.

The Secretary said that we were also going forward under the President's authority to consider what the United States alone might do to solve this problem. It seemed unlikely to us, however, that it ever could be solved in the face of determined British opposition. Without going into detail, the reason for this conclusion was that Iran could only sell its oil in volume in markets which would bring American distributors into violent competition and conflict with British distributors. Therefore, some degree of British cooperation was necessary. It seemed to him likely—although here he was speculating—that this could only be done by a series of steps in which American unilateral action was started and became apparent. Thereupon some degree of British cooperation might be stimulated. He thought we would probably have to proceed by jerks in this way, with some periods of considerable bitterness.

It seemed to Secretary Acheson most important that the new Administration should be closely in touch with this situation, because considerable difficulties were likely to arise from it.

3. *European Defense.* Here there were two problems of immediate and critical importance to the new Administration.

The first was the meeting of the North Atlantic Council on December 15. The other nations demanded it. It was not possible to make any great progress at this meeting, because the material was not in usable shape. Countries had submitted military programs for 1953 which far exceeded their stated economic capacity. There could be only preliminary discussion of this matter.

It would be necessary to have another and more definitive meeting at an early date. The European countries have asked for February 15. The latest date which seemed workable was March 1. Therefore, the new Administration must be prepared to act promptly and with full information soon after it comes into office. We had attempted to postpone the date as long as possible, but any

substantial postponement would defeat effective military progress in 1953.

The second critical matter related to the treaty with Germany and the European Defense Community treaty.[5]

Until the recent outburst in France, we had hoped that these treaties would be ratified toward the end of 1952 or at the latest in January or February of 1953. The attack on the treaties in France had caused us worry, but we still had thought that the difficulties might be surmounted with a little more delay. Today, however, a most disturbing action occurred. As a result of a press conference statement by Mr. Schuman, the Adenauer Government had been defeated on a motion to take up the treaties on November 26. No date was now set, and it was too early to estimate the full extent of this action. It did seem probable, however, that we were now in a position where there was jockeying between France and Germany as to who should act first, with nobody being prepared to act until the new Administration came in. This was not only serious in regard to the defense aspects of the situation, but we might count on a very strong German reaction against continuing the occupation and postponing the practical implementation of the treaty with Germany. Therefore, we had a real crisis in Western European collaboration.

4. *Southeast Asia.* We had been concerned for a long time about the course of action in Indochina. There was a strong body of opinion in France which regarded this as a lost cause that was bleeding France both financially and by undermining the possibility of French-German equality in European defense.

There had been a noticeable lack of French aggressive attitude from a military point of view in Indochina. The central problem in Indochina was the fence-sitting by the population. They would never come down on one side or another until they had a reasonable assurance of who would be the victor and that their interests would be served by the victor.

We were helping France to the extent of carrying between one-third and one-half of the financial burden of the Indochinese war. We had had military discussions between the five powers—the United States, United Kingdom, France, Australia, and New Zealand—which had not been effective in devising agreed military solutions against the contingency of overt Chinese intervention in Indochina. The French now sought political discussions to carry the matter forward.

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[5] For documentation on U.S. participation in discussions on the establishment of contractual relations with the Federal Republic of Germany, see volume VII; for documentation on the European Defense Community, see vol. V, Part 1, pp. 571 ff.

This was an urgent matter upon which the new Administration must be prepared to act.

All of the foregoing problems were involved in the survey which the President had ordered made of the use of our resources in foreign aid. Mr. Joseph Dodge indicated that he was familiar with this survey. Mr. Acheson stated that it involved a study of the proper assignment of resources to foreign aid as against domestic re-armament, of allocations between military and economic assistance, of allocations between areas.

The growing unrest throughout North Africa and the Middle East raised questions as to whether we had put proper amounts of our resources to work in those areas.

We hoped this study would be pushed to conclusion before January 20. It was essential for the new Administration to be familiar with it, since it involved the entire foreign program.

5. The last item was the matter of United States foreign economic policy. This did not relate solely to appropriations for foreign aid, but more importantly to our economic and financial policy.

It seemed to us clear that the economic underpinning of the Western alliance was too flimsy for safety. The slightest diminution of American aid or American defense spending might produce economic consequences which might seriously weaken the countries most closely associated with us. We had been conducting studies in this field. A British Commonwealth Conference would meet next week, which would come forward with very far-reaching proposals involving American participation.

It was essential that early in 1953 the United States Government should have carefully reviewed its foreign economic policy and be able to come forward with one which gave some chance of stability to the Western world, and particularly to our major allies. If that were not done, it seemed to Mr. Acheson that a very large part of the foundations for a successful United States foreign policy might be undermined.

General Eisenhower said that he would like a memorandum of what the Secretary of State had said. He would give it careful study. He would also give careful study to the suggested statement on Korea. He recognized the seriousness and critical nature of the matters discussed.

General Eisenhower said that he was preparing immediately on the conclusion of this meeting to go with Secretary Lovett to meet the Joint Chiefs of Staff for a military briefing. In view of this, both he and Mr. Lovett thought that it was unnecessary to discuss any military matters.

Mr. Harriman said that he would not go into MSA matters, because Mr. Dodge and others would be familiar with them through

their budget work. However, he strongly recommended that at an early date someone be specifically designated to have liaison with MSA. General Eisenhower agreed that this should be done.

General Eisenhower also said that he had an appointment to see Mr. Eden in New York on Thursday and that, prior to seeing him, he would carefully consider what Secretary Acheson had said regarding Korea.

The President and General Eisenhower then went over a draft joint statement which had been prepared and with two changes adopted it. (Attached)[6]

The meeting concluded at 3:15 p.m.

[Attachment 1]

Memorandum for the President by the Secretary of the Treasury (Snyder)[7]

WASHINGTON, undated.

In the Treasury Department there is a wide range of matters relating to the financing of the Government and to the international position of the United States which will confront the new Administration in the early part of 1953. The matters involved include (1) the financial aspects of United States transactions throughout the world, (2) the formulation of a tax policy to recommend to the Congress, and (3) the management of the public debt.

1. *International Finance.*—In the international field, the Treasury is responsible for the coordination of basic financial policies, including those relating to the aid programs administered by State, Defense, and the Mutual Security Agency. The broad political and strategic aspects of foreign policy and national security are to be presented by the State and Defense Departments. Financial aspects of these subjects can be presented to the new President's financial advisers by the Treasury Department at a later time. An important concern of the Treasury is the relationship of international and domestic financial policies, including the impact of the foreign aid programs on taxes and public debt management, Moreover, the Treasury is responsible for the maintenance of the value of the dollar abroad, the operation of our gold bullion monetary standard, cooperation with other countries in foreign exchange policy, and the administration of controls embargoing financial transactions with Communist China. The Treasury is also concerned with the

[6] Attachment 3 below.

[7] Identity of the drafting officer(s) is not indicated on the source text.

coordination of lending activities of the International Bank and the Export-Import Bank with the grant programs of foreign assistance. In addition to his role as chief financial officer of the Government, the Secretary has special responsibility in foreign financial policy as Chairman of the National Advisory Council on International Monetary and Financial Problems, through his membership on the Council of the North Atlantic Treaty Organization, and through appointment as Governor of the International Bank and of the International Monetary Fund.

2. *Taxation.*—In the tax field, the immediate problem will relate to a number of defense tax increases, including the excess profits tax, which are due to expire between June 30, 1953, and March 31, 1954. The new Administration will have to formulate a tax program for recommendation to the Congress to meet this situation. The importance of the problem is indicated by the fact that the Government is operating at a deficit and the scheduled tax expiration would reduce revenues by about $2 billion in the fiscal year 1954 and by about $8 billion a year when the reductions reach their full revenue effect.

3. *Debt Management.*—In the field of debt management, there is a $267 billion national debt created largely as a result of World War II. Some of this debt will require refunding during 1953. There will be new money to raise to finance the Government deficit, if there is one in the calendar year 1953, and to provide for seasonal cash requirements during periods in which expenditures temporarily exceed receipts. There will also be problems relating to the sales of savings bonds to individuals. It is imperative that the savings bond program, which is a nation-wide campaign of thrift, be continued and extended. There is also the consideration of appropriate securities for various other investment classes.

Technical materials relating to all of these problems are available at the Treasury and can be presented to the new President's financial advisers at any time. These advisers may wish to receive also the briefing given the Treasury's advisory committees of bankers who consult with the Treasury regularly on current financing and debt management problems.

[Attachment 2]

Proposed Statement on Korea Prepared by the Secretary of State for the Meeting Between the President and President-elect Eisenhower, November 18, 1952

WASHINGTON, undated.

The American people earnestly want peace in Korea. They insist, however, on an honorable armistice. The armistice should be a clean and clear armistice which settles all the military problems and leaves nothing to chance or misconstruction.

Our prisoners of war in communist hands must be promptly returned. Communist prisoners of war in our hands should be allowed to go home. But it is clear to me that those who violently resist return to the communists cannot be driven back. They cannot be held in indefinite captivity. They must be released as free men.

I hope that the General Assembly of the United Nations will take a firm stand on these matters.

[Attachment 3]

Joint Statement Issued by the President and President-elect Eisenhower at the Close of Their Meeting at the White House, November 18, 1952

President Truman and General Eisenhower met today at the White House. After conferring together by themselves, they met with the Secretaries of State, Defense and Treasury, the Director of Mutual Security, and General Eisenhower's associates, Senator Lodge and Mr. Dodge.

At the end of the talks, the President and General Eisenhower issued the following statement:

"We have discussed some of the most important problems affecting our country in the sphere of international relations. Information with respect to these problems has been made available to General Eisenhower.

"Under our Constitution the President must exercise his functions until he leaves office, and his successor cannot be asked to share or assume the responsibilities of the Presidency until he takes office.

"We have worked out a framework for liaison and exchange of information between the present Administration and the incoming Administration, but we have made no arrangements which are inconsistent with the full spirit of our Constitution. General Eisen-

hower has not been asked to assume any of the responsibilities of the Presidency until he takes the oath of office.

"We believe, however, that the arrangements we have made for cooperation will be of great value to the stability of our country and to the favorable progress of international affairs.

"We are confident that this meeting and that the arrangements we have made today for liaison and cooperation between the present Administration and the new Administration furnish additional proof of the ability of the people of this country to manage their affairs with a sense of continuity and with responsibility."

Truman Library, Acheson papers

Memorandum of Conversation, by the Secretary of State

CONFIDENTIAL WASHINGTON, December 24, 1952.

MEMORANDUM OF CONVERSATION WITH MR. JOHN FOSTER DULLES

I telephoned Mr. John Foster Dulles on the afternoon of December 19 after my return from Paris,[1] telling him that I thought it would be desirable for me to give him a full report of my talks in Paris with the Foreign Ministers both in and out of NATO meeting and of my impressions of the situations in both Germany and France and of the present status of the ratification of EDC. I made this call at the suggestion of Mr. Bruce, with whom Mr. Dulles had discussed the proposal for the early appointment of a High Commissioner to Germany. Apparently he had in mind the possibility of appointing Mr. Robert Murphy.

Mr. Dulles mentioned to me over the telephone that he would like to hear what I had to say before making an appointment and asked whether in the light of my discussions in Paris I would think the man referred to above would be a good appointment. I said that he was an excellent man, was doing an extremely good job where he was, was badly needed there, and I thought would not be so effective in Germany because of the great importance of German-French relations and in view of the perhaps unfounded view in Paris that Mr. Murphy was not sympathetic with the French. Mr. Dulles said that he would be returning to Washington the following Wednesday; that no decision was contemplated immediately: and that he would discuss the matter further with me then.

Mr. Dulles accordingly called upon me at the State Department on Wednesday December 24. I showed him my report of my conversation with Monnet; told him of the reports made to me by Reber and Debevoise and of the Chancellor's conviction that despite his

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[1] Acheson had attended the Tenth Session of the North Atlantic Council held Dec. 15–18, 1952. Regarding this meeting, see the editorial note in vol. v, Part 1, p. 348.

troubles he would successfully surmount the court issue and would have the agreements ratified by the Bundestag in January and by the Bundesrat in February.[2] I reported to him also my conversation with Pleven and Schuman regarding action by the French Chamber following German ratification. I told him of the Chancellor's desire to have a High Commissioner appointed as soon as possible, who would be a strong man with whom he could work on intimate terms. I also told him of the Chancellor's desire for some expression by the new Administration of its support of EDC and that the latter should be in the framework of European unity and not merely as a military matter. I suggested that this might be done in a New Year's message from General Eisenhower to General Ridgway and his former comrades at SHAPE, which need not stress the military aspects, but could point out that they were part of a larger movement of profound historic significance.

He said that he had been working on this and had talked with General Eisenhower and Mr. McCloy. General Eisenhower's belief was that his views were so well known regarding his support for EDC that it was unnecessary to repeat them. I stressed that repetition was most important.

Mr. Dulles then turned to the matter of the High Commissioner. He said that they were now considering President Conant of Harvard and had had some talk with him. He wished this to be kept very secret. I told Mr. Dulles of my talks with Mr. Conant at the end of 1951 and of the difficulties which he then had in leaving his present post on short notice. I did not know what his present situation was. I also said that at one time Mr. Conant had had grave doubts about any sort of rearmament of Germany and that this was a matter which should be carefully explored, because such an attitude on the part of the High Commissioner at a time when the Chancellor was in a very bitter battle might be disastrous. He said that he would look into this.

I then informed Mr. Dulles of the status of the John Carter Vincent matter, saying that on a review of the hearing before the Review Board, it seemed to me that the Board was passing judgment, not on Mr. Vincent's loyalty, but on the question of his judgment on the controversial issues of China policy. I thought that if the loyalty program got into this field, it would destroy the Foreign Service, and I was, therefore, thinking of seeking a board composed of an eminent judge and several people familiar with the Foreign Service to consider the matter, advise me whether my fears were founded and advise me further whether I should exercise the legal

[2] Reference is to the ratification by the Federal Republic of Germany of the Contractual Agreements of 1952; for documentation, see volume VII.

power in accordance with the Board's recommendation or in some other way.

I said that some members of the Board I had in mind, and mentioning them, had wondered whether they could finish their work before January 20 and what Mr. Dulles's attitude toward their work would be thereafter. They did not wish to start upon a task which he would want to discontinue. After some discussion, in which Mr. Dulles showed an appreciation of the dangers to the Foreign Service, which I had suggested, he said that I might say that he would regard the work of the Board as helpful and would be glad to talk with any members who might wish to talk with him. He stressed the fact that the appointment of the Board and the whole procedure should be wholly my responsibility, and not a joint responsibility. I said that I fully appreciated this.

I then brought Mr. Dulles up to date on developments in Iran, including our talks in London and Paris during the past week and with developments in Egypt.

I mentioned to him that Senator Carl Hayden had told me that there was a great deal of activity on the Hill regarding the so-called Bricker amendment dealing with the treaty making power. I said that Senator Hayden had suggested that I bring this to Mr. Dulles's attention, as he might wish to find out from his Republican colleagues whether amendment action was contemplated, since this might be a grave embarrassment to Mr. Dulles. Mr. Dulles made a note of the matter and said that he would look into it.

In conclusion he said that he would be in and out of Washington and that at any time I had matters which I thought should be brought to his attention, he would be glad to call upon me.

711.00/12-3052

Memorandum by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan) to the Deputy Under Secretary of State (Matthews)[1]

SECRET WASHINGTON, December 30, 1952.

Subject: Attitude of the Arab States toward the Incoming Republican Administration in the United States.

Problem:

The Arab States greeted the election of General Eisenhower with enthusiasm, as marking a probable turning point in U.S. policy toward the Near East. They expect from the new Administration a

[1] Drafted by Parker T. Hart, Director of the Office of Near Eastern Affairs.

greater appreciation of the strategic importance of the area and a recognition of the greater importance of the Arab countries relative to Israel in the strategy of Near East defense against the USSR. The question is how to deal with this Arab attitude, which presents both an opportunity and a problem to basic U.S. interests in the Near East.

Background:

The conviction of the Arab world that the outgoing Administration is heavily biased toward Israel was reaffirmed recently by U.S. support of the Eight-Power Resolution at the United Nations General Assembly, operative paragraph 4 of which urged the Israelis on the one side and the Arab States on the other to seek a peace settlement by entering "at an early date, without prejudice to their respective rights and claims, into direct negotiations for the establishment of such a settlement, bearing in mind the resolutions as well as the principal objectives of the United Nations on the Palestine question, including the religious interests of third parties" This paragraph is regarded by the Arab States as relegating previous United Nations resolutions concerning Palestine into a position where they could be ignored, and as requiring negotiation to be on the basis of the *de facto* boundary and refugee situation in Palestine. Arab bitterness on this subject during the General Assembly debate was recently reflected in a violent press campaign against the West in the Arab States. In addition, the Arab League is holding a threat of economic boycott over the Federal Republic of Germany, effective at such time as the German Parliament ratifies the Restitution Agreement which it signed in 1952 with Israel, and has charged the U.S. with responsibility for this "un-neutral" document, which they say, ignores the compensation rights of the Arab Palestine refugees.

Discussion:

The Arab attitude towards the election of General Eisenhower has been more clearly indicated by press reactions in the Near East than in official statements. The press was particularly vocal in Beirut and Baghdad, less so in Syria and Egypt where military regimes exercise a more strict control over what is printed.

The Arabs appear to hope vaguely for a new orientation of U.S. policy towards the Near East which will include: (1) greater emphasis on economic and military assistance to the Arab States as compared with Israel; (2) an affirmation of U.S. determination to prevent aggression by Israel against the Arab States; and (3) pressure on Israel to implement the obligation (which she has accepted in principle) to compensate Arab refugees, to repatriate to Israel a substantial proportion of the Arab refugees, and to rectify her

boundaries with the Arab States at least in rough equivalents to the allocations of territory outlined in United Nations resolutions which have gone unobserved by both Israel and the Arab States.

However vague and imprecise may be the feelings of the Arab States, there is no doubt that their hopes are very high. This fact presents both an opportunity and a risk at a time when the U.S. Government is moving to effect a settlement of differences between the U.K. and Egypt and to establish a Middle East Defense Organization. The alternatives are three:

(1) that the present mood in the Arab States may be turned to U.S. advantage by certain friendly gestures and actions by the incoming Administration; or that

(2) this wave of Arab enthusiasm, if given no encouragement, may spend itself rapidly in such disillusionment that currently dwindling faith in U.S. friendship for the Arab world might be completely lost and the leadership of moderate Arab opinion, which favors closer ties with the U.S. and the West, would be supplanted by extremist opinion of an anti-Western and a neutralistic nature; or

(3) that Arab enthusiasm may be over-encouraged, beyond capacity to later satisfy.

Recommendations:

It is recommended:

(1) that you call the attention of Mr. Dulles to the problem of Arab-Israel relationships and to the declining prestige of the U.S. throughout Arab lands which has resulted from Arab conviction that present U.S. policy favors Israel against the vital interests of the Arab States;

(2) that a special opportunity exists for the incoming Administration to capitalize on Arab hopes and expectations, without raising the latter too high;

(3) that in the best interests of the U.S. these hopes and expectations should not be allowed to collapse;

(4) that, accordingly, it is suggested that the incoming Administration consider the desirability of several initial moves designed to convince the Arab States of (a) its deep interest and impartiality toward all states in the Near East; (b) its determination to discourage aggression within as well as upon the Near East area; (c) its desire to work steadily for peace between Israel and the Arab States by whatever means seem best calculated to produce that result; and (d) its determination to weld the states of the Near East into a workable structure for defense against Soviet aggression;

(5) It is also suggested by NEA that the following might be considered as suitable initial moves by the new Administration designed to create the desired effect:

(a) a brief general statement in the President's Inaugural Address embodying a recognition of the importance of the Near and Middle East area to the U.S. and to the defense of the free world, and the friendly and impartial interest which

the U.S. entertains towards all states of the area. An example of the type of general statement which this Bureau believes useful is attached.

(b) an early reaffirmation by the new Administration, in conjunction with the governments of the United Kingdom and France, of the principles of the Tripartite Declaration of 1950 regarding non-aggression within the Near Eastern area. It is hoped that this reaffirmation might strengthen the earlier language, so as to re-emphasize that (assuming the new Administration pursues current plans to develop a Middle East Defense Organization) any arms aid extended to states of the Near East are to be used only for area defense against an outside threat and not for intra-area aggression.

(c) an early visit by Secretary Dulles himself to the Near East to discuss with heads of states top policy problems regarding U.S. relations with the Near East. It is suggested that if Mr. Dulles finds this idea congenial, announcement of the intention to make such a trip might be made as soon as feasible after the Inauguration. The purpose of the trip would be primarily to underline U.S. interest in the area by breaking precedent.[2] No Secretary of State has visited the Near East in recent years, although many visits have been made to Europe and Latin America. The dramatic aspect of such a visit would recall to Near Easterners General Eisenhower's pre-inaugural visit to Korea and would serve to emphasize an awakened U.S. understanding of the rising importance of Asian peoples in the panorama of U.S. foreign relations. From a practical standpoint it would embolden moderate, pro-Western leadership in the Near East at a moment when the Soviet Union is redoubling its efforts to discredit the U.S. and its Western Allies throughout the area by alliance with extremist, anti-Western groups.

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[2] A handwritten notation on the source text at this point reads: "I have reservations as to timing. H. F[reeman] M[atthews]".

Truman Library, White House Central files, Confidential file

Memorandum for the President by the Director of Central Intelligence (Smith)

SECRET WASHINGTON, January 9, 1953.

In response to your request of December 31st, this Agency has taken the following steps to assist in the orderly transition to the incoming Administration:

a. By your direction I kept each of the major Presidential candidates informed on international developments, along the general lines of the briefings I regularly prepare for you. During the campaign General Eisenhower and Governor Stevenson were each briefed four times at their convenience by an Agency representative.

b. By your direction this Agency prepared a comprehensive National Intelligence digest designed to give in summary form the most important national intelligence on a world wide basis. This was keyed to the NSC policy compilation prepared by the NSC Staff[1] and was given by you to General Eisenhower immediately following the election.

c. Since the election I have personally briefed General Eisenhower four times, and Mr. Joseph Dodge, the incoming Director of the Budget, once.

d. To ensure the strict security precautions necessary for handling highly classified information, I have established a secure office for an Agency representative in the Commodore Hotel. This Agency representative is continuously available to the President-elect and to the Secretary of State designate to brief them and to provide the intelligence digests regularly prepared by the Central Intelligence Agency.

e. Representatives of CIA have conferred with General Eisenhower and his representatives, at their request, in connection with a committee which General Eisenhower proposes to establish for the purpose of reviewing the US effort in the field of "cold war" activities. These conversations have assisted in the organization of this committee and in providing it with working facilities.

f. Various special briefings have been prepared in order that I may provide on request additional information for the principal cabinet and sub-cabinet officers.

WALTER B. SMITH

[1] See the editorial note, p. 3.

Secretary's Letters, lot 56 D 459, "President"

Memorandum for the President, by the Secretary of State[1]

[WASHINGTON,] January 12, 1953.

In reply to your memorandum of December 31, 1952, requesting a brief report on what has been done by the Department of State to facilitate an orderly transition to the incoming Administration, I should like to report that the following steps have been taken:

General Liaison Arrangements—Shortly after the appointment of Senator Lodge as the general liaison officer for the new Administration, Mr. Bruce met with Senator Lodge and informed him that the Department was ready to place all necessary information at his disposal. Subsequently, there have been frequent exchanges of information between Senator Lodge and Departmental representatives on general liaison problems, and I am confident that we have made every effort to make his liaison task an easy one.

[1] Drafted by Christopher Van Hollen of S/S on Jan. 9. A notation on the source text indicates this memorandum was sent to the White House on Jan. 12.

Mr. Dulles—Upon the designation of Mr. Dulles as the Secretary of State in the new Administration, I wrote to Mr. Dulles assuring him that all of us in the Department of State stood ready to help him in any way that we could to assure the smoothest possible transition. Accordingly, Mr. Dulles was provided with an office in the Department and all Departmental officials were placed at his disposal for consultation and assistance. I have had two meetings with the Secretary-designate at which we discussed Departmental administrative questions and some of the more critical foreign problems facing the country. Mr. Dulles has met Under Secretary Bruce on several occasions to discuss administrative and top level personnel problems and has also consulted the Director of the Executive Secretariat about the organization and operation of the Office of the Secretary. The two Deputy Under Secretaries, the three Assistant Secretaries responsible for European, Far Eastern, and United Nations Affairs, and the Director of the Bureau of German Affairs have talked with Mr. Dulles. At his request, he has received the advice of these and other Departmental officials on such specific questions as the loyalty of United States citizens employed by the United Nations Secretariat, Stalin's reply to the Reston question, the New Year's message from General Eisenhower to General Ridgway, et cetera.[2] In addition, Mr. Dulles has obtained oral briefings from United States Ambassadors to France, Iran, and Pakistan who were back in the Department for consultation and who, therefore, were available to explain the latest developments in their respective countries.

Other Appointees—In my letter to Mr. Dulles I also told him that when the new top Departmental officials had been named, we would be glad to have them come to the Department and sit in with Departmental officials to discuss problems that would later come under their jurisdiction. The personnel and facilities of the Department have been placed at the disposal of the recent appointees: Messrs. Lourie, McCardle, Morton, and Phleger. Each has either received or will soon receive both oral and written briefing on the organization and procedures of the Department and on the problems in the area for which he is to be responsible. With the announcement that Senator Lodge would replace Ambassador Austin as the United States Representative to the United Nations,

[2] In December 1952, James Reston of the *New York Times* submitted four questions to Soviet Premier Josef Stalin concerning the possible easing of international tensions and termination of the Korean war. Reston's queries and Stalin's replies are printed in the *New York Times*, Dec. 26, 1952, pp. 6–7. For documentation on the interest of the Department of State in having President-elect Eisenhower express interest in early ratification of the treaty establishing a European Defense Community, possibly through the medium of a New Year's telegram to General Ridgway, see vol. v, Part 1, pp. 571 ff.

meetings on United Nations problems were arranged for the Senator with Ambassadors Austin and Gross, the Deputy Under Secretary of State for Administration, and the Assistant Secretary for United Nations Affairs.

Briefing Material—In order that the incoming Departmental officers might be fully informed about the immediate problems, as well as the longer-range problems which they would face, briefing materials were prepared for their use. The Department's Executive Secretariat compiled two comprehensive briefing books for the Secretary-designate and the Under Secretary-designate: one, a General Briefing Book, contained information on the organization of the Department, the operation of the Office of the Secretary and Under Secretary, major programs, relations with other Government agencies, and legislative and budgetary reviews; the other, a Policy Briefing Book, contained statements of current United States policies, broken down on a geographical area, functional, and organizational basis. The General Briefing Book is being provided to all incoming Assistant Secretaries, and policy briefing books are being prepared on an individual basis to inform new officers of the current policies in their areas.[3] At the request of General Eisenhower's representatives, briefing material on Korea was prepared for General Eisenhower's trip to Korea last month and on United States–United Kingdom problems for Mr. Churchill's visit to this country.

I feel that the above arrangements have been most successful in meeting the needs of the incoming Administration and that we have been helpful in every way possible to Mr. Dulles and the other representatives of the next Administration who will assume responsibility for the operation of the Department of State.

DEAN ACHESON

[3] The briefing books under reference have not been found.

110/1-1653

Memorandum by the Assistant Secretary of State for Public Affairs (Sargeant) to Secretary of State-designate John Foster Dulles[1]

CONFIDENTIAL WASHINGTON, January 16, 1953.

Subject: Restoring Public Confidence in the Department of State

[1] A covering memorandum of transmittal from Assistant Secretary Sargeant to Dulles, also dated Jan. 16 reads: "I promised you a memorandum of the suggestions that my colleagues and I have been developing on this subject. I am attaching a short memorandum which summarizes our thinking, and I am sending a copy of

Continued

As the Secretary of State and the President are aware, the restoration of public confidence in the Department of State will depend primarily upon its having the wit, the wisdom—and the luck—to be associated with policies that yield readily perceptible results favorable to the national interest, particularly in Korea, Western Europe, including Germany, and Iran.

At the same time, measures not directly related to substantive policies can be taken that may be expected to produce a more favorable atmosphere than has lately surrounded the Department. These include:

1. Regaining the Confidence of the Congress

Lack of public confidence in the Department has been materially contributed to by criticism originating in the Congress. As one means of forestalling uninformed criticism, the Secretary might consider the desirability of assuring the widest possible understanding in the Congress of the problems facing the Department. He might hold regular or bi-weekly meetings with the chairmen and the ranking members of the committees of the Senate and the House of Representatives dealing with foreign affairs. He might instruct the Assistant Secretaries and other substantive officers of the Department to hold similar regular meetings with members of the committees dealing with problems of mutual concern. He might further encourage officers of the Department to cultivate friendly relations with the members of the Congress. The end sought should be understanding of the requirements of foreign policy as it develops rather than when a crisis is reached. Confidence in the correctness of policy in given circumstances will breed confidence in those who shape it.

2. Restoring Confidence in the Personnel of the Department and of the Foreign Service

(a) Although the Secretary of State cannot divest himself of his personal responsibility for the fair and expeditious handling of charges that may be made against personnel of the Department and the Foreign Service, he might contribute to popular confidence by appointing a body of consultants to advise him concerning the effectiveness of departmental mechanisms designed to assure the loyalty, the security, the morality and the competence of personnel. The consultants, who might include a respected military officer of general or flag rank, a highly regarded public servant not connected with the Department or the Foreign Service and a distinguished

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this to Carl McCardle." McCardle, at the time Washington Bureau Chief of the Philadelphia *Evening-Bulletin*, became Assistant Secretary of State for Public Affairs on Jan. 29, 1953.

citizen drawn from private life, could be asked to report within six months. Their inquiry would concern only procedures, not cases closed or pending. In addition to creating confidence that the procedures are adequate or can be made so, their report could serve to reassure personnel that their rights can and will be maintained.

(b) Personnel of the Department and the Foreign Service should be encouraged, at times even instructed, to make public appearances throughout the country, particularly in the Middle West, the South and the Southwest, and in small as well as large communities. The purpose would not be primarily to communicate policy, although better understanding of policy might be a helpful by-product, but to demonstrate that those charged with the handling of foreign relations at many levels are capable, responsible and congenial human beings drawn from and representative of the people as a whole. They should be encouraged to contribute, in accordance with established procedures, articles on their personal experiences to newspapers and to magazines, particularly when they have a story to tell that will offset impressions that personnel of the Department and the Foreign Service are exotic dilettantes.

(c) For several reasons, including the high degree of specialized training normally required, the personnel of the Department has tended to be somewhat less widely representative than the personnel of other executive agencies. Without the sacrifice of exacting professional standards, the appointment of individuals drawn from a wider circle to ranking positions in the Department would tend to arouse the interest of women, Negroes and others, enhance the representative character of the personnel and thus develop confidence in the Department. Similar considerations might continue to be taken into account in the appointment of delegates and alternates to the General Assembly of the United Nations.

3. Developing the Role of the Secretary

(a) The Secretary of State is inescapably the living symbol of the Department in the public mind. His public appearances and his public statements are therefore highly important to the prestige, the reputation and, hence, the effectiveness of the Department. The press is the medium through which, over the long term, he will make a deep impression on a great number, and the press will reflect him primarily through his periodic press conferences. Although these are given over primarily to an exposition of specific policy questions, the Secretary might also occasionally utilize them to discuss departmental affairs. The Secretary can also command space in the press by submitting signed articles to newspapers and magazines; the utility of the Sunday magazine sections for making an impression is not to be underestimated.

(b) Television and radio are equally important as means of creating a popular impression. The Secretary may wish to consider utilizing them not merely for disseminating major utterances but for giving currency to excerpts from press conferences and, together with newspaper photographs and newsreels, for helping to present a sympathetic image to the public mind.

(c) Other media have supplemented but they have not supplanted the public address as a means of illuminating a subject, attracting or solidifying the support of a specific group and making a personal impact. The Secretary will be called upon to make many such appearances during the course of a year. By making several, notably in areas such as the Middle West and the Southwest, he will contribute to the prestige of his office, thus developing support for imperfectly understood policies and creating confidence in the Department.

(d) In his own press conferences and public utterances, the President can contribute significantly to augmenting and reenforcing the efforts of the Secretary to restore public confidence in the Department. He can further contribute to this end by timely public appearances with the Secretary, thereby reaffirming his own confidence in the Department over which the Secretary presides.

(e) In addition to regular press conferences, the Secretary can develop effective press support for the policies that he is carrying out by a series of off-the-record conferences with selected correspondents. The Assistant Secretaries and other knowledgeable officers of the Department should be encouraged to make themselves available to selected correspond- ents for off-the-record discussions.

(f) The Secretary will have relatively few opportunities for direct contact with individual citizens. However, he can to some extent compensate by making time for brief interviews with representatives of many influential organizations of citizens whose support of foreign policy is important to its success. The meetings might be attended by one or another Assistant Secretary, with whom the individual or organization might have subsequent business.

(g) The effectiveness of the foregoing actions would be increased by greater coherence in the public relations activities of the Department. Although the Assistant Secretary of State for Public Affairs has a broad responsibility in public relations matters, his actual working responsibility is in fact vague. SA/M is the point of contact for the press, but its working relationship with P is not clearly defined. To a major degree A and to a lesser extent L take responsibility for many public announcements on departmental affairs. These announcements are sometimes cleared with P and frequently are not. S/P has produced press releases and speeches on a variety of subjects. The speeches of the Secretary are written by an

officer on his personal staff, although they are prepared in close collaboration with P and other areas of the Department. With the exception of the preparation of the speeches of the Secretary, most of these activities proceed on a piece-meal basis in answer to some urgent need and do not reflect carefully considered public relations. A carefully integrated program would contribute to the improvement of the Department's sometimes confused relations with the press.

4. Reenforcing Public Impressions

The actions of the Secretary will need to be reenforced by measures in which he and his immediate staff are not directly involved. The Office of Public Affairs is preparing a detailed outline of specific measures. Given the authority to do so and the necessary budgetary support, it can introduce into its publications, its conferences with non-governmental groups, its radio and television activities discreet but effective material contributing to the development of public understanding of and popular confidence in the Department. It can, among other things, arrange for the production of a documentary film demonstrating how foreign policy is made and executed. It can help to develop public interest in the building in which the major activities of the Department are located. It can develop exhibits that will stimulate public interest in the operations and the achievements of the Department. The need to avoid contraproductive propaganda is clearly recognized. Equally recognized is the need to help to develop public understanding of the role of the Department as a guardian of the national interest.[2]

HOWLAND SARGEANT

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[2] A memorandum of a telephone conversation between Secretary Dulles and Attorney General Brownell, dated Jan. 28, 1953, reads in part as follows: "The Secretary telephoned the Attorney General about the multiplicity of hearings and investigations into the Department and said that they were calling various clerks and swearing them in at Executive Sessions and generally ruining the morale of the Department. He said that he thought only the President could cope with this and that some thought should be given to it. There are now about ten Committees investigating the Department." (Eisenhower Library, John Foster Dulles papers, "Telephone Conversations")

GENERAL FOREIGN ECONOMIC POLICY OF THE UNITED STATES

Editorial Note

On July 28, 1952, Assistant Secretary of State for Economic Affairs Willard L. Thorp delivered an address to the Fourth Annual Conference on American Foreign Policy at Colgate University, Hamilton, New York, concerning the economic roots of United States foreign policy; for text, see Department of State *Bulletin*, August 4, 1952, pages 173–177.

On June 11, 1953, Special Assistant Robert Asher addressed the Economic Education Workshop at Marshall College, Huntington, West Virginia, on the economics of United States foreign policy. His address became the basis for an article printed *ibid.*, July 6, 1953, pages 3–8.

On February 8, 1954, Assistant Secretary of State for Economic Affairs Samuel C. Waugh delivered an address before the Trust Division of the American Bankers Association at New York City, in which he discussed current problems in economic foreign policy; for text, see *ibid.*, March 1, 1954, pages 321–326.

On August 11, 1954, Deputy Assistant Secretary of State for Economic Affairs Thorsten V. Kälijarvi addressed the Georgetown University Air Force ROTC on the relationship between economic foreign policy and national security. His address became the basis for an article printed *ibid.*, September 20, 1954, pages 409–417.

Editorial Note

In late September 1952, the Department of State, with the approval of President Truman, assumed leadership within the Executive branch of an interagency staff review of economic foreign policy. The purpose of the review was in part to reexamine the validity of assumptions underlying international economic policies developed during the post-World War II period, and in part to enable the succeeding administration to evaluate the adequacy and direction of current programs. John M. Leddy, Director of the Office of Economic Defense and Trade Policy, was designated to organize the preparation of studies and, together with Harlan Cleveland, Assistant Director for Europe, Mutual Security Agency, and George H.

Willis, Director of the Office of International Finance, Department of the Treasury, to determine specific agency drafting assignments. Working groups and individual drafting officers participating in the review, which was concluded in early March 1953, produced a large number of staff papers, identified as EFP D–1 to EFP D–31a. A complete set of these studies was later transmitted to Alfred C. Neal, Director of Research, Commission on Foreign Economic Policy, by Leddy, under cover of a letter dated October 16, 1953, not printed. (100.4 FEP/10–1653) For information concerning the Commission, see the editorial note, page 49. Documentation relating to the staff review is contained in Eisenhower Library, U.S. Commission on Foreign Economic Policy (Randall Commission) records, 1953–1954; and Federal Records Center Accession No. 71 A 6682, GATT files, lot 59 D 563, box 446, "Review of U.S. Foreign Economic Policy".

Eisenhower Library, Randall Commission records, 1953–1954

Paper Prepared for the Working Group on Review of American Economic Foreign Policy[1]

CONFIDENTIAL
EFP D–2/1

[WASHINGTON,] December 11, 1952.

NOTE ON ECONOMIC ASSUMPTIONS UNDERLYING AMERICAN ECONOMIC FOREIGN POLICY

I believe it would be useful to schedule one or possibly two meetings of the working group which could be devoted to a discussion of certain fundamental economic notions about the working of the international economic system. I have the feeling that differences of viewpoint which have been expressed with respect to the wisdom or practicality of some of the economic programs we have been thinking about may be rooted in disagreements on basic assumptions. I also feel that it may be these differences in fundamental concepts which account for the differences in approach to the economic problem represented by, say, the Rosenson paper on convertibility[2] and the *Economist* suggestion for an Atlantic Clearing Union.

The points to which I think we should address our attention are these:

1. How is it expected that a world system of trade and payments, free of quantitative restrictions and exchange controls and with

[1] A covering transmittal memorandum, dated Dec. 11, by William S. Lambert, Secretary to the Working Group, is not printed. No list of the members of the Working Group was found in Department of State files.

[2] Not printed; a copy is in the Randall Commission records.

convertible currencies, would be kept in balance? In other words, what equilibrating forces are expected to operate so as to prevent persistent surpluses and deficits (not accounted for by normal capital flow)? Under the gold standard the notion was that an inflow of payments produced by an export surplus would tend automatically to increase prices in the surplus country and reduce prices in the deficit country, thus stimulating imports into the surplus country and deterring imports into the deficit country. Whatever may have been the validity of this notion in the past it is clear that under present and foreseeable circumstances there is no direct or automatic connection between the inflow and outflow of payments and internal price levels. Whatever connection may exist would presumably have to be established through conscious acts of internal credit and fiscal policy by the governments concerned. If this is in fact the case I wonder whether it is enough to say that balance will be achieved if only governments pursue "stable" internal financial policies. In other words, do not internal fiscal and monetary policies need to be much more closely tailored to the condition of the external balance (and to the internal policies of other governments) than would be implied by a simple undertaking to promote internal stability? Again, if this is true, isn't it almost a prerequisite of equilibrium through the price mechanism that internal policies be brought into the international arena in a much more powerful way than some of our papers seem to contemplate, and may this not be an argument for some new kind of international organization?

2. It may be objected to the foregoing that in the case of a country such as the United States, whose international trade is such a small portion of total GNP, under no circumstances could the state of the external balance be expected to have an important equilibrating influence on internal price levels even if the old gold standard were in operation and certainly not under present circumstances under which comparable effects could be achieved only through internal policy. This is probably true, but the fact that it is would seem to have little practical importance so long as the United States is on a surplus basis and so long as the United States, for a variety of reasons, is prepared to maintain an internal policy directed at high levels of employment. However, to some extent a similar problem exists elsewhere, for example France, whose international trade is only about 10 percent of GNP.

3. We have been assuming that it would be possible over time to bring United States international accounts into balance through commercial policy measures designed to increase imports, through investment flow to underdeveloped areas, through special projects such as the food program to remove "structural" distortions in the situation by increased output of food elsewhere, and by appropriate

internal policies abroad. During the past few years, however, a number of people have come to believe, without being able to prove the point, that the United States has an inherent bias toward an export surplus. So far as I have been able to discover, two main reasons have been put forward for this belief. The first is that since the rate of increase of *over-all* productivity in the United States is greater than elsewhere, the United States will perpetually tend to run an export surplus. If this belief is correct then it is difficult for me to see how any of the things that we have been discussing (with one exception) could bring about equilibrium through the price mechanism. While reductions in the United States tariff and appropriate internal policies elsewhere would increase the level of imports into the United States, presumably the tendency toward U.S. exports would also increase. Similarly, the stimulation of food output in underdeveloped areas and of capital flow to underdeveloped areas would not seem to help the balance-of-payments situation under these circumstances. The one exception is to be found in a change in foreign exchange rates, but presumably so long as our total productivity tends to increase at a faster rate than others, there would have to be a continuing depreciation of foreign currencies over time. The disadvantages of continuous depreciation as a solution to the problem may argue for much stronger emphasis than we have been giving to measures to increase foreign productivity.

The second main explanation which has been given of the U.S. bias toward export surplus lies in the structure of American imports and exports. The argument here is that since the great bulk of American imports is in crude materials and semi-finished manufactures, the level of total U.S. imports tends to be affected primarily by the rate of industrial production and is little affected by changes in price. On the contrary price declines tend to reduce rather than increase the total value of imports. On the other hand American exports, which are largely manufactures, are sensitive to price changes, so that price declines tend to stimulate exports from the United States. In other words, for the United States, price declines tend to work in only one direction. They stimulate exports without stimulating imports. What the policy implications of this may be I am not quite clear except to confirm what we already know—that effective tariff reductions by the United States very largely relate to imports of finished manufactures.*

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*It should be noted that the proportion of finished manufactures in total U.S. imports has increased from about 10 percent of the total pre-war to about 13 percent in 1950 and to 17 or 18 percent in 1951 and 1952. [Footnote in the source text.]

4. I am not sure how the foregoing ideas with respect to the persistent export bias of the United States economy square with the concept of comparative cost of [*as*] a basis for international trade. If comparative cost operates, presumably trade would take place even though the United States were more productive in each item of trade than other countries so long as there were disparities in productivity between different industries in the United States. I hope someone will be in a position to explain this at the meeting. One point I would like elucidation on, incidentally, is whether the idea of comparative cost is intended to be only a very long run factor, significant at points of new investment, or whether it is also assumed to be a short run factor which currently influences the quantities of commodities exported and imported through the price mechanism.

I do not believe that the discussion on these various theoretical subjects should be pushed too far but I believe that some examination of these points may help to throw light on what we may expect from some of the specific policies and programs we are considering.

JOHN M. LEDDY

Editorial Note

On August 14, 1953, President Eisenhower appointed Clarence B. Randall, Chairman of the Board of Inland Steel Company, as Chairman of the Commission on Foreign Economic Policy. The Commission, commonly referred to as the Randall Commission, was established in pursuance of Title III of the Trade Agreements Extension Act of 1953 (Public Law 215), approved August 7, 1953; for text, see 67 Stat. 472.

The purpose of the Commission was to conduct a thorough review of United States foreign economic policy, to recommend appropriate policies and practices for the future, and to report its findings to both the President and Congress. The organization of the Commission was completed on September 22, 1953. It proceeded to take testimony from witnesses in the United States and for four days in Paris; its work was completed in January 1954. The Commission's majority report was transmitted to the President and to Congress on January 23, as *Report to the President and the Congress* (Washington, 1954). A dissenting view, by two of the Commission's members, Representative Daniel A. Reed (N.Y.), Chairman of the House Ways and Means Committee, and Representative Richard M. Simpson (Pa.), was transmitted to the President and Congress on January 30 under the title *Minority Report* (Washington,

1954). Papers prepared for the Commission by its research staff were published as *Staff Papers Presented to the Commission on Foreign Economic Policy* (Washington, February 1954).

Documentation concerning the formation and work of the Commission is contained in Department of State file 100.4 FEP for 1953 and 1954, and Eisenhower Library, U.S. Commission on Foreign Economic Policy (Randall Commission) records, 1953–1954. For pertinent press releases containing additional information, see Department of State *Bulletin*, August 17, 1953, page 202; August 31, 1953, pages 279–280; October 5, 1953, page 450; and November 16, 1953, page 685.

100.4 FEP/1-2754

Memorandum by the Under Secretary of State (Smith) to the Administrative Assistant to the President (Hauge)[1]

[WASHINGTON,] February 10, 1954.

Subject: Department of State Comments on Recommendations of the Randall Commission

In accordance with your request of January 27, 1954, I am transmitting a memorandum which contains the Department's comments on the recommendations of the Randall Commission.

Since receipt of the Report we have given consideration to the question of the Administration's approach to the Report as a whole. It is our strong view that, on balance, the wisest course for the Administration to pursue would be to accept the program proposed in the Report as the new take-off point for the reformulation of our foreign economic policy. Otherwise, we run a substantial risk that the advantages created by the generally constructive nature of the Report will be dissipated.

In recommending this course of action, we wish to note that there are many individual recommendations in the Report with which the Department would have disagreed if they had not formed a part of the carefully balanced "package" which the Report represents. We feel, however, that these differences should be submerged in the interest of achieving progress in the constructive reformulation of our foreign economic policy as a whole.

The Department's detailed comments, contained in the attached memorandum, must be viewed in the light of the general position stated above. These comments are made largely in order to indicate omissions and isolate ambiguities. However, if the Administration

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[1] Drafted by Acting Director of the Office of Economic Defense and Trade Policy Vernon.

should decide, in the end, to reopen any of the main issues covered in the Report, our comments on some points would be more extensive and more critical.

WALTER B. SMITH

[Attachment]

COMMENTS ON SPECIFIC RECOMMENDATIONS

1. Page 8. *Economic aid.* The Department feels that, in practice, the recommendations with respect to economic aid will need amplification in order to provide a somewhat clearer basis for actual operations.

Under present policies, the assistance included in the Mutual Security Program on a grant basis is based on security grounds. Part of these grants are for the purpose of helping some nations, who cannot themselves sustain the burden, to support military forces essential for our security. Another part—moderate in amount—represents a critical supplement to larger programs of development undertaken by some countries with their own resources. These latter programs are believed to be consistent with the Commission's thinking that "where our security is importantly involved . . . moderate grants in aid may serve the national interest of the United States."[2]

In many underdeveloped areas, the relationship of our security to programs of development is direct and immediate. The basic maladjustment of underdeveloped countries is the result of the pressure of their peoples for accelerated economic development and the insufficiency of their domestic resources and foreign exchange availabilities to do the job which must be done. The security of the United States will be greatly enhanced if these peoples are convinced that free society holds more for them than does communism. The United States has, therefore, regarded economic aid as a weapon in the fight against world communism as well as an expression of essential United States humanitarianism.

With respect to the recommendation that economic assistance should be in the form of loans rather than grants, there may be some cases where substantial economic aid to a country will be warranted in the interest of the United States and where any loans made would have to be in a form not meeting ordinary banking standards. The problems and difficulties which such loans would

[2] Ellipses throughout in the source text.

involve, however, are so serious that we consider that these need to be reemphasized.

There are also a number of major problems with respect to economic grant aid on which the Report does not touch. Reconstruction aid in situations such as Korea represent one group of such problems. The problems involved in the agricultural surplus disposal program also present difficult and important issues.

Finally, when considering the foreign aid section of the Report, note should be taken that the Commission did not address itself to the question of extension of economic assistance in association with other nations. This question is of considerable significance both because of existing United Nations programs of that type and because of the President's proposal of April 16, 1953,[3] in which he asked the American people to contribute a substantial portion of the savings of international disarmament to a fund for world reconstruction and development. As a follow-up to the President's proposal, the United States sponsored a resolution,[4] which was adopted by the United Nations General Assembly, asking all governments to make a similar pledge.

2. Page 16. *United States foreign investment.* There are several additional suggestions for stimulating foreign investment which the Report does not cover and which merit careful examination. These include: the use of technical assistance in helping countries to improve the "climate" for private investment and to provide better information concerning investment conditions and opportunities; improvements in the administrative and procedural aspects of the guaranty program, in order to make the program more attractive both to investors and to borrowing countries; greater use of bilateral tax treaties, aimed at defining the particular foreign taxes that qualify as a credit against United States domestic taxes and defining the treatment of temporary tax concessions offered by the foreign government to new investment; greater use of the authority of the Export-Import Bank to guarantee loans made from private sources, on a contingent liability basis; and the possibility of joint participation by the Export-Import Bank with private enterprise (American or foreign) which would not invest in the absence of the Bank's participation.

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[3] The proposal was made in an address delivered by President Eisenhower before the American Society of Newspaper Editors on April 16; for text of the address, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953* (Washington, 1960), pp. 179–188.

[4] For text of the resolution, adopted as Resolution 724 A (VIII) by the General Assembly at its 468th plenary meeting on December 7, 1953, see *Yearbook of the United Nations* (New York, 1954), pp. 299–300.

3. Pages 28–32. *Agricultural policy.* The recommendations of the Commission clearly point in the right direction but this is a field in which a somewhat greater degree of specificity is necessary. In implementation of the Commission's recommendations, it would be necessary to consider, for example, the standards to be applied in restricting foreign imports and subsidizing exports: Should such import restrictions be designed so as not to deprive imports of the share of the domestic market they would have enjoyed in the absence of the domestic program; should a representative base period be employed in making such determinations; should we reexamine the criteria established in Section 22 of the Agricultural Adjustment Act;[5] where imports represent a large part of domestic consumption and where the support of domestic prices would unduly encourage the use of substitutes, should we use income support instead of import restrictions; and should we in some specific way limit the share of the world market we preempt by our subsidized exports, including our sales by the United States Government at lower than purchase prices? Should the extent of our import restrictions and export subsidies be determined unilaterally, or should they be the subject of international negotiation?

4. Pages 35–36. *Instability of raw material prices.* The Department agrees with the recommendations of the Commission concerning the measures and policies that will be most conducive to reducing the excessive instability of raw material prices. It assumes, however, that the Commission recognized that many of these measures can be applied only gradually and will take a substantial time to achieve their purpose. It assumes, also, that this fact was at least one of the reasons why the Commission deliberately avoided closing the door on *all* international agreements to stabilize prices in the following recommendation: "The Commission does not believe that extensive resort to commodity agreements will solve the problem of price instability . . . "

In point of fact, there will probably continue to be very few commodities in which the countries affected have sufficient desire for international action of this kind to result in an agreement and even fewer where the peculiar circumstances make an agreement both expedient and workable. Nevertheless, the United States cannot afford to adopt the attitude that it will not under any circumstances participate in such an agreement, regardless of the economic hardships that may be suffered by producing countries and regardless of the political and strategic consequences.

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[5] Section 22 of the Agricultural Adjustment Act of 1933, as amended in 1935 and subsequent years, authorized the President to impose import fees or quotas in order to prevent imports from materially interfering with the domestic agricultural program. For additional documentation on the relevant legislation, see pp. 114 ff.

5. Page 45. *Buy American Act.*[6] The first part of this recommendation, proposing the amendment of the Buy American Act, is ambiguous as to a major point, namely, what is meant by the concept of treating other nations "on an equal basis". If this criterion were to rule out nations which cannot accept United States bids because they cannot afford to pay for the materials in dollars, the field of its applicability would be narrow and the effect would be contrary to the Commission's clear intent to provide some liberalizing action in the Buy American field. Moreover, consideration needs to be given to the question of how to reconcile the approach implicit in the Commission's recommendation on this point with that implicit in its recommendation elsewhere, that the United States continue to follow an unconditional most-favored-nation policy with respect to trade matters.

6. Page 50. *President's powers to reduce tariffs.* The Report does not consider the special problem of the tariffs applicable to goods which are appraised on the basis of the American selling price, e.g., coal-tar dyes. The question will have to be faced in connection with the meaning of paragraph c of this recommendation, which relates to the reduction of tariffs over "50 per cent ad valorem". The special group of commodities which are appraised on the basis of American selling price commonly have an ad valorem incidence of 200 or 300 per cent in terms of normal valuation methods, even though the *apparent* rates, as recorded in the Tariff Act,[7] run at about 30 or 40 per cent in most cases.

7. Page 53. *Organizational provisions of the GATT.*[8] At present, most of the GATT's provisions represent a multilateral trade agreement, and have nothing to do with organization. Is it intended that the scope of these substantive non-organizational provisions should be circumscribed in any way? In particular, is there any intention to limit agreements on substantive provisions which embody broad trade policies, such as the general principle against import and export restrictions?

8. Page 72. *Currency convertibility.* A somewhat firmer understanding is needed of what the Report's recommendations imply for

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[6] Title III of the Appropriations Act of 1933 (Public Law 428), approved Mar. 3, 1933; for text of the Act, see 47 Stat. 1489. The Buy American provisions required U.S. Government agencies in procuring supplies for public use to purchase only domestic materials, provided they were available, unless the domestic supplier's price was unreasonable, or unless such purchase would be inconsistent with the public interest.

[7] Tariff Act of 1930 (Public Law 361), approved June 17, 1930; for text, see 46 Stat. 590.

[8] Reference is to the General Agreement on Tariffs and Trade (GATT), concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see 61 Stat. (pts. 5 and 6), or Department of State Treaties and Other International Acts Series (TIAS) No. 1700.

action on convertibility in the immediate future. Various governments have indicated clearly a serious interest in the early return of their currencies to a convertible status. The United Kingdom and Germany, among others, have already discussed this problem with our Government, and the United Kingdom has elaborated a rather detailed program contemplating a phased return to sterling convertibility.[9] The Department believes that if positive and definable progress is to be made toward the goal of convertibility it is important to take advantage of existing favorable circumstances and attitudes which, if lost, may not be recaptured in the foreseeable future. The United States can best do this by responding in a positive and constructive manner to the initiative already taken by other countries, rather than awaiting new initiatives.

The Department accordingly believes that it would be in full accord with the approach and recommendations of the Commission Report for the United States to proceed expeditiously to reach understandings with the other principal countries concerned on: the amounts of credits which might be made available from the Federal Reserve System and which the United States would support for extension by the Fund, respectively, for the purpose of assisting in the establishment of convertibility of sterling and other major currencies; the terms and conditions which the United States should impose in connection with the extension of such credits; specific additional steps by other countries which would warrant commitment of such support.

In view of the similarity of interests between Canada and the United States in this general area, and Canada's present relatively strong financial position, this Government should explore with the Canadian Government the possibility of supplemental credits from Canada for the purposes here considered.

Moreover, in view of the value of the European Payments Union as an instrument for promoting European unification,[10] the United States will have to give careful thought to the relation between the establishment of currency convertibility and the continued functioning of the EPU.

9. *European economic integration.* In any complete reformulation of United States foreign economic policy, our views with respect to European economic integration need to be stated. Although some favorable mention is made of Western Europe's progress through the OEEC in widening the area of multilateral trade and payments, the question of European economic integration—both in the

[9] For documentation on discussions between representatives of the United States and the United Kingdom on the question of sterling convertibility, see volume VI.

[10] For documentation concerning U. S. efforts to promote European economic integration, see *ibid.*

wider OEEC area and within the area of the European Coal and Steel Community—is not dealt with. The Report is silent, for example, on our support for the European Coal and Steel Community and on the United States view with respect to the promising economic aspects of the European Defense Community and the proposed European Political Community.

10. *Restrictive business practices.* One important area of foreign economic policy with which the Report does not adequately deal is the problem of restrictive business practices as they affect international trade; except for a brief reference in one limited context—that of encouraging international investment—no recommendations are made with respect to the problem. If reliance is to be placed on the stimulating effects of competition in international trade, as the Report appropriately envisages, more progress must be made in the discouragement of cartel practices. These practices have had a profoundly adverse effect on attempts of countries to raise the productivity of their economies; they have constituted direct barriers to the normal flow of international trade; they have added to the costs of rearmament in Europe; and they have reduced our supplies of important raw materials, such as industrial diamonds. A program in this field needs to be developed.

11. *Frivolous and repetitive escape clause actions.*[11] It is worthwhile considering whether to ask the Congress to limit the procedural provisions of the escape clause so that (a) frivolous cases need not go through the formal investigation procedures of the Tariff Commission and (b) applicants are not free to file a new escape clause application immediately upon rejection of a prior application.

12. *Added problems of customs administration.* The Report is silent on a number of issues regarding customs administration and policy which seem to merit consideration. One is a proposal to amend the countervailing duty laws so that such duties are applied only where a domestic industry is being injured. Another is a proposal, mentioned above, to eliminate "American selling price" as a basis of appraising a special group of imported articles. Still others include: broadening the application of the provisions permitting substitution for drawback purposes; eliminating the provision that the Secretary of the Treasury may not alter a ruling which would

[11] Section 7 of the Trade Agreements Extension Act of 1951 (Public Law 50, approved June 16, 1951, 65 Stat. 72), as amended, provided that if the U.S. Tariff Commission found that an article upon which a tariff concession had been granted was being imported in such increased quantities as to cause or threaten serious injury to a domestic industry, the Commission must recommend the withdrawal or modification of the concession, or the establishment of import quotas to the extent necessary to remedy the injury.

favor importers except with the assent of the Attorney General; eliminating the proof-gallonage basis for taxing imported distilled spirits; eliminating the discriminatory aspects of certain internal revenue taxes; and broadening the definition of commodities eligible for duty-free entry as "works of art".

WALTER B. SMITH

GATT files, lot 59 D 563, "Foreign Economic Policy Paper—1954"

Memorandum by the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] March 18, 1954.

Subject: Draft Presidential Message on Foreign Economic Policy

General Evaluation

The draft message, attached as Annex A,[2] strikes roughly the same pitch as the Randall Commission Report on which it is based. However, there are a few visible retreats from major recommendations contained in the Report; these are mentioned below and developed in more detail in the attached annexes. Our best judgment is that the policies will be regarded abroad as constructive but relatively cautious and lacking in boldness. The points at which the statement retreats from the Report proper will be especially highlighted abroad. Taken as a whole, the statement falls somewhat short of establishing a strong basis for United States assumption of leadership on the economic front.

The Department's written comments on an earlier draft[3] of this statement, sent to Mr. Randall last week, tried to retrieve some of the lost ground in the draft statement; these comments are attached as Annex B.[4] At that time, however, we had not yet had the benefit of your recent expressions of concern that the United States must assume a strong position of leadership on the economic front. Accordingly, our comments were heavily conditioned by what we considered to be negotiable in the ordinary course with other agencies and with the White House.

Major Points Which Might Be Strengthened

If you wish to strengthen the policy statement measurably, the following points would be those on which to concentrate:

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[1] Drafted by Vernon.
[2] Not found with the source text.
[3] Not identified.
[4] Not printed.

1. Request tariff-negotiating authority which would permit the United States to negotiate effectively with Japan. To do this, it will be necessary to go somewhat beyond the recommendations on this point in the Randall Commission Report. The proposed 15 per cent authority recommended in the Report and in the draft message, assuming it were fully exercised, would not afford meaningful tariff reductions for that country. This is particularly important because, in many cases, the depth of the tariff cuts which other nations would be willing to provide for Japanese products will depend on how far we can go. A specific proposal to carry out this suggestion is contained in Annex C, attached.

2. Adopt the principle of the Randall Commission recommendation that the 50–50 shipping clause in our aid legislation and in other statutes should be eliminated.[5] These clauses, which provide in general that half of our Government-financed cargoes to foreign countries should be carried in American bottoms, have long been a source of serious friction with aid-recipient countries. The clauses add significantly to shipping costs and detract from the constructive value of our aid. They lead to retaliation and mutual recrimination. A specific proposal is developed in Annex D, attached.

3. Strengthen our policy regarding the avoidance of agricultural import restrictions. The weakest point in any effort to assume economic leadership is our inability to make commitments on the avoidance of agricultural import restrictions. Section 22 of the Agricultural Adjustment Act requires the President to impose import restrictions, despite any international agreement to the contrary, whenever he finds that imports are interfering with a domestic price-support program. This provision has compelled us to violate the GATT; it will compel us, on renegotiation of the instrument, substantially to weaken the existing commitments contained in it. This fact is strengthening the hands of agricultural protectionists throughout the world, especially Western Europe. It is likely to be one added deterrent to any efforts we may make toward agricultural integration in that area. And in any case it is likely to damage our own agricultural export markets in the long run. Annex E develops a relatively modest proposal which would strengthen our hand in this general field. This proposal is consistent with the general line of the Randall Commission Report though it is more specific than anything contained in the Report on the subject.

4. Strengthen our statement on minerals policy. The Randall Commission had recommended that where domestic minerals production must be stimulated for security purposes, it should be stimulated by means other than tariff increases or other import restrictions; the alternatives might be increased stockpiling, tax incentives, or direct subsidies out of the defense budget. The present draft conspicuously fails to endorse this principle, though it endorses others which the Commission had proposed on the same subject. The failure of the draft to endorse the principle is a clear retrogression from existing practice; tariff increases and other import restrictions are not now used to expand production. A special Cabi-

[5] The so-called 50–50 provisions required 50 percent of all cargoes financed for the account of the U.S. Government to be shipped in U.S. bottoms.

net Committee on Minerals Policy,[6] which has been at work over the past few weeks, also has failed to endorse the principle, recommending rather "the best use of all of the various existing authorities of the Government"; the Cabinet Committee's recommendations are attached as Annex F. This latter formulation resolves no issues; it simply leaves the Department free to urge at a later date that import restrictions are not the "best" of the "various existing authorities". The point is likely to be noted at once, particularly in Canada and Latin America. The draft statement could be substantially strengthened by insisting upon a specific endorsement of the debated principle, carried in the last paragraph of page 11.

5. Make a more constructive statement as regards United States foreign aid policy. On April 16, 1953, the President stirred the world with his pledge that a portion of any savings from world disarmament might be used by the United States to help underdeveloped areas. This pledge, though very much in the minds of some foreign countries, was disregarded in the Randall Commission Report and in the draft message. The omission will be regarded as significant and disillusioning in many quarters. Annex G suggests a text for reaffirming the pledge.

6. Resist any proposals by other Cabinet members for weakening any present recommendations in the draft report. We are only aware of one such proposal which may be made, namely a proposal by Mr. Weeks that the President should not go as far in reducing the Buy American preference as the draft now indicates. This is elaborated in Annex H.

Points To Be Strengthened In Any Event

Apart from any major effort to strengthen the statement, we feel the following point must be improved:

At page 5, paragraph marked "(a)", it is recommended that the President be empowered to reduce tariff rates "by not more than 5 per cent of present rates in each of the three years of the new act". This is likely to mean that the 5 per cent reduction available in the first year would not be used, because tariff negotiations could not be completed in time; as a result, the available power would be limited to 5 per cent a year for two years. Other nations, including Japan, Canada, the United Kingdom and France, already have indicated their skepticism that any worthwhile tariff reductions would result, even if the full 15 per cent power were available. Indeed, there is a very substantial risk that if our own negotiating authority were limited in effect to 10 per cent by the formula in paragraph (a), we could not even persuade other nations that any tariff negotiations were worthwhile. Accordingly, to assure that the full 15 per cent authority is available, the words "in each of the three years of the new act" should be replaced by the words "in each successive year of a three-year period".

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[6] Apparent reference to the Cabinet Committee on Minerals Policy appointed by President Eisenhower on Oct. 26, 1953. See the editorial notes, pp. 1116 and 1257.

Annex C

ADDED TARIFF-NEGOTIATING AUTHORITY

At page 5 of the draft, strike the first complete paragraph and substitute the following:

I consider it particularly important that this nation be in a position to take the leadership in negotiations between Japan and the other principal trading nations of the world for the mutual reduction of tariffs and other trade barriers. Japan needs market opportunities if she is to live. Our own security depends in part on her economic strength.

Accordingly, I recommend that the Congress go beyond the proposals of the Commission on Foreign Economic Policy in certain respects in order to provide the necessary authority to achieve this end. I recommend renewal of the Trade Agreements Act for a period of three years with necessary amendments to provide authority pursuant to trade agreements negotiations, to

a. Reduce existing tariff rates on commodities selected for such negotiations by not more than 5 per cent per year over a three-year period;

b. Reduce existing tariffs selected for negotiations to one-half their January 1, 1945 level over a three-year period; and

c. Reduce the rate of any tariff selected for negotiation which is in excess of 50 per cent ad valorem, or its equivalent, to 50 per cent ad valorem or its equivalent.

Annex D

STRENGTHENING THE POLICY RE SHIPPING

At page 12, third complete paragraph, second sentence, rewrite as follows (underlined portions are new language):[7]

"I subscribe to the principle that such support of our merchant fleet as is required for the purpose should be provided by direct means *and that preferences in favor of American bottoms for the carriage of government-financed cargoes should be avoided* to the greatest extent possible."

At page 12, last complete paragraph, second sentence, rewrite as follows:

"Its findings will be further reviewed within the Executive Branch *in the light of the principles stated above* in order to develop etc."

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[7] Printed here as italics.

Annex E

HARMONIZATION OF AGRICULTURAL AND TRADE POLICY

Insert the following after the third full paragraph on page 12:

"When we maintain in the interest of American agriculture a level of supports higher than the world price level, we must be careful not to resort to restrictive measures which in the long run will only react to our hurt and which are unfair to foreign countries. I fully endorse, therefore, the conclusion of the Commission's Report that 'In the application of import restrictions on foreign products, the level of those restrictions should be set with full regard for the effects on overseas buying power and the possibility that such restrictions may lead to retaliation and may be self-defeating.' In order to accomplish this objective, I recommend that the Congress amend Section 22 of the Agricultural Adjustment Act of 1934, as amended, so as to provide that import restrictions designed to safeguard a domestic farm program shall not be established at such levels as would deprive the foreign countries affected of the share of the domestic market in the product concerned that they would have had in the absence of the domestic program."

Annex F

SPECIAL CABINET COMMITTEE RECOMMENDATIONS RE MINERALS POLICY

The Cabinet Mineral Policy Committee recognizes that a strong, vigorous and efficient domestic mineral industry is essential to the national security and to the long-term economic development of the United States. The domestic mineral industry must contribute in varying degrees to the mineral raw material base for any future mobilization effort.

In addition to our need for domestic mineral production, it must be recognized that there are many important minerals where efficient domestic production is inadequate or entirely lacking to meet industrial defense needs and where, as a consequence, foreign sources and stockpiling must be relied upon.

The Cabinet Mineral Policy Committee recommends that the supply-demand situation for each of the metals and minerals be evaluated periodically on a case-by-case basis to establish the proper level of efficient domestic production required as an adequate component of the mobilization base. Where it is found that the level of such production in the case of any particular mineral is likely to become, or is now, insufficient to serve as such an adequate component of the mobilization base, then a comprehensive program involving the best use of all of the various existing au-

thorities of the Government should be developed to maintain or to achieve that level of domestic production. In the event that the present authorities of the Government are inadequate to accomplish the desired objective, appropriate legislative recommendations should be prepared.

Annex G

STRENGTHENING OUR POLICY ON FOREIGN AID

Insert on page 13, between the third and fourth paragraphs, the following new paragraph:

On April 16, 1953, I stated that "This Government is ready to ask its people to join with all nations in devoting a substantial percentage of the savings achieved by disarmament to a fund for world aid and reconstruction. The purposes of this great work would be to help other peoples to develop the underdeveloped areas of the world, to stimulate profitable and fair world trade, to assist all peoples to know the blessings of productive freedom." I reaffirm this pledge today. But we know what prevents the carrying out of this promise. Therefore, we must consider how the extension of aid may best serve the interests of the United States in the circumstances as they exist today.

Insert on page 14, at the end of the eighth line, the following new sentences:

"But our security interests must be broadly conceived. Where these interests appear vitally involved, we should not hesitate to make appropriate grants in aid."

Annex H

POSSIBLE PROPOSALS BY OTHER CABINET MEMBERS TO WEAKEN THE RANDALL COMMISSION'S RECOMMENDATIONS

Revision of Buy American Policy

The last two paragraphs of page 10 of the draft statement indicate a substantial liberalization of our existing Buy American policies, that is, policies which require government agencies in general to extend a 25 per cent price preference in favor of domestic sources of supply. Mr. Weeks may argue for retaining a 10 per cent preference rather than the proposed 5 per cent preference for domestic bidders. He feels that, in addition to special treatment for depressed employment areas, there should be special consideration for depressed industries. He may propose that, following the certification by some official (e.g. Secretary of Commerce) to the effect

that certain industries are depressed, Government procurement officers would be authorized to accept only domestic bids for products supplied by such certified industry.

Eisenhower Library, Eisenhower papers, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 10:05 a.m., March 19, 1954 [1]

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon	Director Dodge
Under Sec. W. B. Smith (for Sec. Dulles)	Mr. Flemming, and Mr. Charles Kendall
Sec. Wilson	Gov. Stassen
Sec. Humphrey	Chairman Young
Mr. Brownell	Amb. Lodge
Mr. Summerfield	
Sec. McKay, and Asst. Sec. Wormser	Hon. Clarence Randall
	Dr. Arthur Burns
Under Sec. True D. Morse (for Sec. Benson)	Gen. Persons
Sec. Mitchell	Mr. Rabb
Sec. Hobby	Mr. Harlow
	Mr. Morgan

Foreign Economic Policy Message—The President indicated that Mr. Randall had prepared a fine message to go to Congress on this subject but that some differences of opinion still remained for settlement. Mr. Randall then reviewed the coordination and stated the objective of the message as an attempt by the President to keep strictly in line with the report rather than take a far-advanced position which would endanger support already gained from somewhat reluctant groups.

A memorandum of State Department recommendations for revision [2] was presented and discussed. With respect to State's request

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[1] Prepared by L. Arthur Minnich, Jr., Assistant Staff Secretary, White House.

[2] A copy of the reference memorandum, which is undated and bears no drafting information, is filed with the source text. It contains four recommendations, similar to those made in the memorandum by Deputy Assistant Secretary Kalijarvi, *supra*, concerning special treatment for Japan, increased tariff reductions, elimination of 50-50 shipping provisions, and the stimulation of domestic mineral production by means other than tariff increases and import restrictions.

for a sentence indicating the possible need of exceptional treatment for Japan, the President commented that Congress ought be given advance warning rather than have State later introduce the need unexpectedly. The Vice President commented that such a reference would not create problems on the Hill. Mr. Randall agreed to develop a suitable reference with General Smith.

On the suggestion that the proposal for three annual 5% tariff reductions be consolidated to 15% over three years so that full effect of the authorized reductions would not be lost by protracted negotiations during the first year, Mr. Randall stressed the prior extensive debate within the Commission and the heavy opposition which would be aroused by any change from the report. The President suggested that negotiations might be hastened and that in any event the legislation was designed to establish a pattern for policy throughout subsequent years when the State Department might make up any losses. It was agreed that the message would not be changed in this respect.

The third proposed change, providing for the elimination of the 50–50 shipping clause, was rebutted by Secretary Weeks who reviewed the pertinent sections of the Commission's report. The President suggested that individual opinions might be given during testimony. Gov. Stassen recalled intense Congressional interest in this subject, and predicted the impossibility of change until a new subsidy plan is developed. Gen. Smith agreed.

The fourth State Department recommendation for a positive statement concerning stimulation of domestic mineral production required for security purposes by other means than tariff increases or through import restrictions, received the President's approval along with general Cabinet agreement.

It was agreed also to accept Secretary Humphrey's suggestion for eliminating a sentence concerning mineral policy which appeared to be contradicted by subsequent statements. Mr. Humphrey also commented on the problem of the relationship between importation of minerals and domestic production. Gen. Smith and Mr. Randall emphasized that the section in question pertained only to stimulation of domestic production.

The Attorney General strongly recommended against the provision for reducing the 5% differential connected with the Buy American Act, and he suggested that in default of legislation to this effect the Buy American Act should be applied on a case-by-case basis. He felt that Executive action would be regarded as an invasion of Congressional prerogatives, to which Mr. Flemming agreed. After Mr. Randall indicated that he had no strong feeling, the President upheld the Attorney General's view and favored sub-

stitution of a clause calling for determination on the basis of a reasonable percentage depending on the circumstances of each case.

Mr. Flemming cited a possible conflict between the message and the forthcoming recommendation of the Subcommittee on Minerals Policy,[3] but Mr. Randall made it clear that the report and the message did not preclude use of tariffs to support domestic mineral production for reasons of the national economy; rather it ruled out only use of tariffs as a means of subsidizing defense industries. Mr. Randall responded to another query by Mr. Flemming to the effect that the Commission had carefully considered and decided against a recommendation to have the Tariff Commission in its proceedings take into account broad factors of foreign policy, etc.

[Here follows discussion of other matters.]

[3] Apparent reference to the Cabinet Committee on Minerals Policy. See also the editorial notes, pp. 1116 and 1257.

Editorial Note

On March 30, 1954, President Eisenhower submitted to Congress a special message containing recommendations concerning United States economic foreign policy, based largely on the Randall Commission's report. For text of the President's message, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954,* pages 352–364; Department of State *Bulletin,* April 19, 1954, pages 602–607; or *House Document No. 360,* 83d Cong., 2d sess.

PPS files, lot 65 D 101, "Economic Policy"

Paper Prepared in the Bureau of Economic Affairs[1]

OFFICIAL USE ONLY [WASHINGTON,] May 17, 1954.

FOREIGN ECONOMIC RELATIONS OF THE UNITED STATES[2]

The basic aim of our foreign policy is to improve the security and well-being of the US. This objective is generally accepted and un-

[1] Drafted by Isaiah Frank of the Office of Economic Defense and Trade Policy, in response to a request from Director of the Policy Planning Staff Bowie for a paper on the subject for Secretary Dulles. Forwarded to Bowie under cover of a memorandum by Deputy Assistant Secretary Kalijarvi, dated May 17, which reads in part as follows: "As you are aware, the paper has gone through several drafts. Although I realize there never will be a 'final' draft, the present version is a result of a most careful review in E and, in my opinion, represents a useful effort to set down where we stand on the subject."

[2] Title sheet is not printed.

derstood. What is less widely appreciated is the fact that our international economic policies are a major instrument for achieving this objective. In fact, unless we can regain and step up the initiative in the foreign economic field, US leadership in the free world is threatened.

The purpose of this paper is threefold: (1) to indicate the role of US foreign economic policy in our total foreign policy; (2) to explore the general requisites of effective economic leadership; and (3) to suggest some specific steps toward a positive program to capture and maintain the economic initiative in the free world.

THE ROLE OF U.S. FOREIGN ECONOMIC POLICY IN OUR TOTAL FOREIGN POLICY

There is a ready acceptance of the fact that our political and military arrangements with other countries, such as the NATO, make a direct contribution to the advancement of US security and well-being. It is more difficult, however, to explain what it is about the Schuman Plan[3] or the European Payments Union that should command active US support. And when it comes to such detailed matters as a proposed increase in the US duty on lead and zinc, or the imposition of quota restrictions on imports of almonds or tung oil, the connection with our broad foreign policy objectives seems remote indeed.

Why should the State Department, including on many occasions its highest ranking officials, become concerned with matters which are so technical or seemingly so unrelated in any direct way to the effective conduct of our foreign affairs?

General Policies

The answer lies in the basic nature of our present foreign policy. That policy is predicated on the idea that we strengthen US security by solidifying our ties with other nations of the free world. Accordingly, we have built a web of relations which, taken together, amount to an alliance among virtually all free world nations—NATO, ANZUS, OAS, our ties with Japan, etc. But these ties are not purely military or political. An alliance without economic underpinnings would be inadequate and unreliable

Success in modern warfare depends upon the basic economic strength of the nations involved. A modern war cannot be fought without access to highly complex and expensive material and equipment and without the means to support the civilian economy at the same time. A country can maximize its ability to contribute to a common military cause if it maintains a high level of produc-

[3] For documentation on the Schuman Plan, see volume VI.

tion through the most efficient use of its human and material resources. But efficiency is reduced when each country tries to build on its own resources alone. To the extent that a country insists on producing things which it can purchase more cheaply abroad, it reduces the total quantity of goods available to it as well as to its trading partners. The amazing productivity of the American economy is in considerable measure a reflection of the fact that we have in the US a vast common market virtually free from internal restrictions on trade and the movement of capital. Our efforts in the international field to promote a freer system of trade and payments and a freer flow of capital are aimed fundamentally at achieving a more efficient international use of resources and thereby maximizing the economic and military strength of the free world.

Concerted efforts are also being made by the USSR to achieve a maximum military potential by integrating the economies of the countries within the Soviet bloc. A considerable measure of success has been achieved through a centrally directed allocation and use of resources for this purpose. The Soviet drive underlines the importance of removing those restrictions and impediments which stand in the way of the most efficient use of resources in the free world.

It is against this background that our support of the International Monetary Fund and the General Agreement on Tariffs and Trade takes on added significance. These are the instruments through which we try jointly with other countries to establish a world trading system that will provide the real basis for high standards of living and a maximum contribution to military security. There may be nothing dramatic about technicians from 34 countries spending months of laborious work negotiating an agreement involving 8,800 tariff concessions. And it may take several years or longer before the full economic effects of the action are realized. But the fact that the results may be imperceptible from day to day doesn't make them less important. In setting our foreign policy goals we look beyond tomorrow, and our foreign policies must therefore also be directed to building the long-run strength of the free world as well as to dealing with tomorrow's crisis.

Our alliances with other countries of the free world consist of far more than the provisions of formal agreements to which we may jointly be party. The formal undertakings are in fact largely reflections of the sense of mutuality of interest shared by the peoples of the countries involved. To the extent that this feeling is shaken by economic fears or disputes, the military alliance can be weakened or destroyed.

Many examples of such fears or disputes could be cited. Foreign governments and representatives are still deeply concerned and preoccupied with the damages that might be expected in their countries from a recession in the US. The pressure to impose restrictions on wool imports has created consternation in Australia. Congressional demands to curb imports of petroleum raise doubts in the minds of Venezuelans as to whether we really care about the welfare of their country which is so closely tied to oil exports to the US. Relatively small actions, such as the failure of the low-bid English concern to obtain the government contract for the Chief Joseph Dam, have given rise to tremendous ill feeling abroad. Such actions and the retaliations to which they give rise create an atmosphere inimical to the building up of political and ideological loyalties among peoples. And without strong loyalties political alliances remain fragile at best.

In our efforts to prevent actions harmful to the free world security system we face the practical dilemma posed by the conflict between the special and often short-run interest of particular domestic economic groups and the more general longer-run national interest in free world strength and solidarity. Much of the time and energy of the people concerned with foreign economic affairs is devoted to assuring that in resolving these conflicts the longer-run national interest is adequately taken into account.

In our efforts to build the strength of the free world, we have had constantly to recognize risks short of outright warfare which may imperil our ultimate plans. They include the transfer of political power to unfriendly hands as well as the risks of internal subversion and defection in strategic areas. Areas in which such risks exist are spotted around the globe. In the underdeveloped areas a continuous frustration of the desire for growth can bring these dangers to the surface.

Increased Soviet efforts at subversion are now directed to the people of underdeveloped countries. The Communist appeal runs largely in terms of the hopelessness of the present economic situation of the masses in these areas and their subservience to the economic, political and strategic needs of the US. Since many of these areas have never known political democracy in our sense, a counterappeal in terms of the advantages of Western democracy is apt to seem abstract and not too meaningful. What is needed is steady economic improvement and the creation of a sense of hope for the future.

To be effective a program for the underdeveloped areas must appeal to these basic aspirations. Unfortunately, the instruments available to the US are not entirely adequate in relation to the job to be done. They consist of the technical assistance program, a

modest amount of economic aid, mostly in Asia, the temporary availability of agricultural surpluses, the lending activities of the Export-Import Bank, and our participation in the International Bank. Although their importance should not be minimized, these various forms of public assistance, taken together, contribute only a small portion of the resources that underdeveloped countries need for economic growth. An additional contribution is, of course, made by US private capital but, outside of Latin America and the oil countries of the Middle East, private US investment in underdeveloped areas has not been substantial. Moreover, private capital can be influenced by US action to only a minor extent. It has to be attracted by the foreign countries themselves. And the principal deterrent—the uncertainties engendered by the present tensions—are outside the control of the underdeveloped countries.

A basic problem we face in underdeveloped countries is that economic improvement depends in large part on policies pursued by the local governments. Proper policies on their part can greatly increase the effectiveness of our contribution. In fact, the direct aid programs constitute to a considerable extent the means through which we attempt to induce other countries to take appropriate action. It is in this sphere that some of our most difficult and delicate economic activities are conducted. While recognizing and respecting the diversity of values and institutions in other countries, we must foster the adoption of policies conducive to local investment and initiative and the establishment of a rational system of priorities in development programs. We must encourage appropriate monetary, fiscal, and other policies in order to help trigger off a development process in economically stagnant countries and to cope with the danger of run-away inflation in economies undergoing rapid development. And at the same time we must avoid even the appearance of "intervention."

We aim to improve our security not only by building the strength and cohesiveness of the free world but also by retarding the build-up of Soviet economic power internally and the extension of Soviet influence beyond the Iron Curtain. We seek to accomplish these objectives through a cooperative system of strategic trade controls and through specific efforts to prevent the growth of a dangerous reliance on trade with the Soviet bloc on the part of free world countries.

The ability of other countries to refrain from selling strategic goods to the Soviet bloc depends in good measure upon their ability to market such goods elsewhere in the free world. Similarly, the avoidance of undue general reliance on Soviet sources of raw materials and on Soviet markets depends on the extent to which other channels of trade remain open.

But the task of keeping the channels of trade open runs squarely into the same conflict of interest to which we have already referred. While seeking to reduce the present heavy reliance of Finnish trade on Soviet markets, the US is considering the imposition of anti-dumping duties on imports of Finnish hardboard. While seeking to prevent Italian dependence on Iron Curtain markets for its agricultural products, the US has imposed a quota on almonds and filberts and has subsidized exports that compete with such traditional Italian products as oranges and lemons. Many other examples could be cited. It is the task of the Department to bring into sharp focus the conflict between proposals for such actions and the achievement of our foreign policy objectives so that in the last analysis decisions are made in terms of the totality of the US national interest.

Some Specific Area Policies

The achievement of many of our specific foreign policy objectives for particular areas can be advanced through programs primarily of an economic nature.

In Western Europe, for example, the US has been fostering closer political and economic integration as a means of more fully developing the strength of the area commensurate with the richness of its human and material resources. In addition, it is realized that the most practical way to permit Germany to assume her role in the common defense without alienating France and Benelux is to merge Germany into a larger complex of Western European nations.

The major concrete step already taken in this direction has been the establishment of the Coal and Steel Community. In this organization Germany, France, Italy and Benelux have each relinquished to a supra-national body powers over basic industries such as have never before been yielded by sovereign governments. Without affirmative US support from the beginning, it is unlikely that this unprecedented step could have been taken. At the present critical time when the fate of the European Defense Community hangs in the balance, the US is seeking to strengthen the Community of Six by providing a substantial loan to the High Authority of the CSC as evidence of our faith in the European integration movement. The link between economic action and political objective is direct and clear.

For Western Europe as a whole the US has encouraged closer economic ties through the elimination of national trade and payments barriers. Under the OEEC trade liberalization program, supported by the credit and clearing arrangements of the European Payments Union, most nations of Western Europe have gone a long

way toward eliminating quantitative barriers against each other. But the success of further measures in the same direction depends heavily on the example provided by the US. The fact that the US restricts the imports of chemicals and cheese, for example, has in practice armed the chemical and cheese producers of Western European countries with a powerful argument for resisting their Government's efforts to reduce similar restrictions within Western Europe.

In the Far East our security plans include the development of Japan as an outpost of strength in the free world's efforts to stem Soviet aggression in that area. To achieve this objective, Japan must assume the major responsibility for her own defense and become a defense base for the area as a whole. These military objectives cannot be achieved, however, unless the Japanese economic position markedly improves.

With an arable land area less than that of California, Japan must support a population of 86 million. Under these circumstances, Japan is dependent on international trade. She must export in order to earn the currency she needs for her vital food, raw material, and other imports. But today Japan's trade is seriously out of balance.

The Japanese trade deficit in 1953 was over a billion dollars. Much of this deficit has been made up in recent years through our special expenditures in Japan related to the war in Korea. With the end of the fighting in Korea, the slack will have to be made up either through subsidy by the US tax-payer or by developing adequate trade possibilities within the free world, especially within the area of South and Southeast Asia which has many of the physical resources needed by Japan. The latter solution is obviously the desirable one. It is rendered especially difficult, however, because of the natural attraction of trade with the China mainland and Manchuria, important trading areas for Japan before the war.

Here again we have a military objective which can only be met if certain basic economic adjustments take place. Through our foreign economic policy we have been seeking to bring about the necessary adjustments.

We have assisted in the economic development of the region, the ultimate results of which should raise standards of living and increase the market for products of the free world, including Japan. Steps are now being examined to aid in the modernization of Japanese productive facilities through the extension to that country of a program of industrial technical assistance.

Of major significance have been our efforts to influence the degree of access offered to Japanese goods both in the US and in other free nations. In the process we have encountered opposition

from domestic interests (e.g. the West Coast tuna industry) and a deep fear of a resurgent Japan on the part of Australia and other countries in the area. Nevertheless, some limited success was achieved last year under US pressure when the contracting parties to the GATT permitted Japan to associate with the group and allowed her to acquire some of the rights of a contracting party. Major further strides can be made through concrete steps on the part of the US to lower its own tariffs on Japanese goods and through making concessions to third countries which in turn will make it possible for them to open up their markets to Japanese goods. We are now seeking the authority to take this initiative.

In Latin America the US has promoted over the years a program of hemispheric solidarity. Our purpose has been to have friendly republics with strong economies south of our border that would give support to our general international policies, provide appropriate military support in time of war, and facilitate exports to us of strategic materials. These are primary US objectives in the area. In addition, we have sought to insure profitable opportunities for trade and investment in Latin America. While our primary objectives are political and strategic, the means for achieving them are primarily economic.

The Tenth Inter-American Conference[4] at Caracas serves as an excellent example of this relationship between our total foreign policy and our foreign economic policy. Our principal objective at Caracas was to obtain the concrete expression of hemispheric solidarity that was embodied in the anti-communist resolution. It was apparent, however, that the willingness of some of the Latin American countries to follow our lead in political matters was closely linked in their minds with the expectation of some concrete evidence of US willingness to contribute more fully to the solution of the major economic problems confronting the area. It was in recognition of this sentiment that Secretary Dulles devoted almost two-thirds of his speech[5] in the Plenary to economic matters and in addition made a personal appearance before the Economic Committee. US acceptance of the suggestion of a Special Economic Conference to be held later this year at Rio[6] was also widely interpreted

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[4] For documentation on the Tenth Inter-American Conference, held in Caracas, Mar. 1–28, 1954, see vol. IV, pp. 264 ff.

[5] Reference is to the address delivered by Secretary Dulles at the Second Plenary Session, Mar. 4, 1954; for text, see *Tenth Inter-American Conference, Caracas, Venezuela, March 1–28, 1954: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 43–51.

[6] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic

Continued

as an acknowledgment of US interest in the problems of trade and economic development which are of central concern in Latin America. Our preparations for the Rio Conference have provided us with the occasion for a searching re-examination and reformulation of our economic policy toward Latin America with a view to making it a more effective instrument for promoting our general objectives in the area.

The foregoing examples illustrate the intimate link between our foreign economic policy and the attainment of our broad political and military objectives. It follows that the effective conduct of foreign affairs can only be achieved if we adopt a bold and constructive foreign economic policy designed to strengthen the economic underpinnings on which the security of the free world rests.

UNITED STATES ECONOMIC LEADERSHIP

The US occupies a position of economic leadership regardless of its wishes. The question is whether it uses this position for good or for harm—that is, whether it uses it to build or to undermine the strength and cohesiveness of the free world. It hardly seems possible that in its present position US economic policies could operate as merely a neutral force.

Sensitivity to US Economic Conditions and Policy

The predominance of the US in the world economy is well known. With only six percent of the world's population, we account for well over forty percent of the world's output of goods and services. We generate as much as two-thirds or more of the world's savings. Our foreign trade amounts to between fifteen and twenty percent of the world total. We are the largest single supplier to, and the largest single market for, a very large number of individual foreign countries. Accordingly, the course of economic conditions in the US and the policies we pursue in the international economic field assume tremendous importance in terms of our relations with our allies.

In 1949 we had a slight recession here—a drop in our national income of 3.4 percent. We hardly noticed it. But during this mild adjustment Western Europe's exports to the US dropped almost 22 percent. Chile's sales to us dropped 36 percent and Australia's 34 percent. Changes of this degree rock the economies of friendly countries, directly affect the jobs and well-being of their people, and often create threats to political stability.

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and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22–Dec. 2, 1954; for documentation on the meeting, see vol. IV, pp. 313 ff.

It is not easy for Americans to appreciate this great sensitivity of other countries to even small changes in economic activity in the US. While we ourselves have suffered severe declines, they have not in our lifetime been induced by economic forces stemming primarily from abroad. The US is relatively invulnerable to economic shocks originating in foreign countries. Our foreign trade and investments, though of major importance in certain particular lines, are in the aggregate such a small portion of our tremendous national income that the US is in a position to withstand external shocks with only minor disturbance. This relative invulnerability to changes from abroad is a reflection not only of the great size and diversity of the American economy but also of the high degree of resiliency with which a free enterprise and free market system reacts to those changes which do occur.

In most countries other than the US, the economic well-being of the population is much more heavily dependent on direct earnings from international trade and is therefore affected to a much greater degree by changes both in the physical volume of trade and in the prices of internationally traded goods.

This dependence is dramatic in the case of many underdeveloped countries whose foreign exchange earnings are highly concentrated in a few primary materials. Sixty percent of Brazil's export earnings are derived from coffee; for Chile 51 percent are derived from copper; for Columbia 78 percent from coffee; for Cuba 82 percent from sugar; for Venezuela 97 percent from petroleum; for Egypt 89 percent from cotton; for Indonesia 95 percent from tin and rubber; for Ceylon 78 percent from tea and rubber; for Iraq 80 percent from petroleum; for Pakistan 87 percent from cotton and jute.

Access to foreign markets is also far more vital for other highly developed countries than it is for the US. Though large in absolute terms, US exports constitute only about 5 percent of the national income. For the UK exports amount to 21 percent of the national income; for Canada 26 percent; for Denmark 27 percent; for the Netherlands 46 percent; for New Zealand 37 percent; for Australia 21 percent.

In the light of the foregoing we can understand why it is that an American discussion of restrictions on wool imports is front page news in Australia, although it is barely known beyond wool circles in the US. A US decision to subsidize the disposal of dairy products abroad is important domestically primarily to our dairy interests. It becomes a matter of the greatest moment, however, to the entire population of a country such as New Zealand, one-quarter of whose exports consist of dairy products.

Exporting countries can contemplate subsidies by countries other than the US without fear; but subsidization by the US is cause for

alarm. If carried to its ultimate conclusion—the disposal of our agricultural surpluses regardless of international consequences—the end result could be virtually the economic destruction of other countries dependent on the export of agricultural products. The decision by the US to dispose of its surpluses abroad, either through gifts and special aid programs or through the simple device of selling at a loss, has brought a flood of inquiries and representations from Canada, Argentina, Australia, New Zealand, the Netherlands, Egypt, Turkey and others. Promises that we would use our vast power with restraint have only been partly reassuring. Our position of economic leadership requires that we be certain that decisions taken for reasons that may be responsive to domestic pressures do not sacrifice the solidarity of the free world.

Psychological and Propaganda Factors

It is not only the actual or potential consequences of US economic policies which cause them to assume such magnified importance abroad in terms of our political and security objectives. Certain psychological realities must also be taken into account. Because the US is so big and so strong, it is expected by other nations that we will act more in terms of the common interest of the free world than in terms of a narrow conception of US self-interest. When countries other than the US take action which in the short-run furthers their own interests at the expense of their neighbors, it may be quickly forgotten. The same action on our part is regarded as a breach of the standards of responsibility which nations associate with our position of leadership.

Because friendly countries are conscious of the tremendous power of the US for economic good and economic harm, they are especially sensitive to the importance of prior consultation before we take decisions that can affect their welfare. One of the most impassioned speeches at Caracas was that in which Chile protested the allegedly inadequate US consultation with respect to the strategic embargo on copper exports to the Soviet bloc. Copper exports are vital to Chile's economic welfare and there is no question but that the embargo hurts. But it was the lack of adequate consultation that rankled most. The Chilean speech struck a responsive chord in many other countries.

Much of the harm that might have been done to our international relations by our surplus disposal operations has been prevented by our promises to consult affected countries before we act. But the need to act quickly may tempt us to make our own appraisal of the effect on friendly countries and to act without consulting them. If we yield to this temptation, our previous promises to consult will be the cause for new grievances. Even very slight damage to the

economy of a friendly country may create a breach in relations that will be difficult to repair.

US policies which damage the interests of our allies, or which create doubts as to where their interests lie, are not only in themselves destructive of free world unity. They constitute propaganda weapons in the hands of the Communists in their program of dividing and conquering the world.

Stalin, before his death, sketched in rough outline the way the Communists hoped that the disunity of the free world could be achieved. He saw the crisis in terms of inevitable trade conflicts between the nations of the free world. Stalin may be dead, and the music coming from Moscow may be soft and sweet. But the recent moves of the Kremlin clearly indicate that it intends to exploit to the full weaknesses and divisions in the economic structure of the free world.

Malenkov in his report to the 19th Party Congress on October 5, 1952 stated:

"American imperialism is acting today not only as an international exploiter and enslaver of nations, but also as a force that is disrupting the economics of the other capitalist countries . . . it is wrecking the historically established multilateral economic ties between the capitalist countries and replacing them by unilateral ties between these countries and the US. Boosting their exports through the most unscrupulous dumping while at the same time closing their home market to foreign goods . . . the economic policy pursued by American imperialists is bound to aggravate the antagonisms between the US and other capitalist countries."[7]

The leaders of the Soviet Union are apparently proceeding on the theory that economics is the Achilles heel of the West.

A few illustrations drawn from the trade policy field will show how the Soviet world has sought to exploit recent US actions. When steps were initiated in the US to restrict imports of Australian wool, the Soviet Union for the first time in two years entered upon a program of buying wool in the Australian market. When the Department of Defense turned down the low British bids for the sale of generators and transformers for the Chief Joseph Dam, the Soviet Union, Bulgaria, Poland, and Rumania offered at the ECE meeting in Geneva to buy electrical equipment, including transformers and generators, from the UK. When, in the spring of 1953, imports into the US of dried whole milk were embargoed and a comprehensive list of dairy products were placed under quota, representatives of two Soviet bloc countries immediately offered to buy Swedish dried whole milk. When the US imposed a quota on

[7] Ellipses in the source text.

almonds and filberts, while at the same time subsidizing exports of oranges and lemons, Czechoslovakia and Bulgaria offered to buy almonds, lemons and oranges in the free world. When the US, as a result of an escape clause action, raised the duty on Turkish figs, Czechoslovakia offered to buy figs from Turkey. When a countervailing duty was imposed on Uruguayan wool tops and when pressure was exerted to curb other imports from Latin America, the Soviet Union pressed for the completion of a trade treaty with Argentina.

This partial list of the many opportunities seized upon by Communist propaganda makes clear the Soviet intentions to use economics to divide the free world and to conquer it by peaceful means if possible. Victories on the battlefields would be hollow indeed if we lose the struggle in which we are now engaged on the economic front. Survival of the free world may depend upon the way in which we use our position of economic leadership.

The Requisites of Economic Leadership

It is easier to point out the pitfalls to be avoided than it is to lay out an affirmative and constructive foreign economic policy commensurate with our leadership in the free world. There are, however, five essential ingredients in such a policy.

(1) The US must maintain a high level of economic activity at home. This is a responsibility which derives not only from considerations of domestic welfare but equally because of the effects of a decline in US economic activity on the well-being of friendly countries. A serious depression in the US is still pathologically feared by most countries of the free world. If it should ever materialize, the achievement of our foreign policy objectives would literally be imperiled.

(2) To a greater extent than heretofore, the US should discuss in advance and in a spirit of genuine consultation with friendly foreign governments, any contemplated US actions significantly affecting their economic well-being. Part of the sting can be taken out of actions adversely affecting friendly countries when advance consultation is held and the necessity for the action explained.

(3) The US should consider courses of action in terms of the common interest of the free world rather than in terms of a narrow conception of US self-interest. Official recognition has been given to this principle in connection with tariff matters. The escape clause and peril point provisions of our tariff legislation are designed to mitigate injury to our domestic producers from tariff reductions. In commenting on these, I shall carefully consider the findings and recommendations of the Tariff Commission. My responsibilities for the welfare of the nation require that I continue to base my decisions at times on broader grounds than the Tariff Commission is empowered to consider."

(4) The US should adopt a fairly long-run view of what is in the common interest, implying a willingness to take constructive eco-

nomic action even in the absence of imminent crises. The massive relief and economic aid programs of recent years to Europe bear testimony to the ability of the US to respond quickly and effectively to situations of crisis. Now that these programs are tapering off, our position of leadership will be tested by our initiative and steadfastness in pursuing the same goal of strengthening the free world through measures which will generally be less dramatic and more conventional. Our policies looking toward freer trade, multilateral convertibility and economic development should be strengthened even though those policies are designed for the long pull.

(5) The US should assert an affirmative interest in the economic well-being of the free world as something which is good in itself and not merely as a defense against Communism. This is both good policy and good propaganda. As propaganda, the Communists have used it effectively in constantly giving voice to a concern for the poor, the "downtrodden" and "exploited". In terms of policy, we cannot afford to be purely on the defensive. Even if there were no Communist threat, it would be in our interest to promote economic development in underdeveloped areas and raise the general level of production and trade in the world. The worst mistake we can make in this connection would be to link our constructive economic programs so directly and obviously to our military objectives as to raise doubts in the minds of free world countries as to whether we are really interested in economic welfare as something which is good in itself (e.g. recent proposals that aid to India be cut off because of India's refusal to permit the flight of troop planes over Indian territory).

STEPS TOWARD A POSITIVE PROGRAM

A Basic Dilemma

In trying to translate these general principles into a bold and affirmative program of action, the US faces a basic dilemma.

Our conception of the proper role of government in economic affairs is much more narrow than that of most other countries. In peacetime we tend to think primarily in terms of private action rather than in terms of governmental capabilities. For us the major normal function of government in the economic sphere is to provide an environment in which private enterprise can flourish free from artificial restraints. This basic creed we carry over into our economic relations with other countries. Our principal specific objectives relate to the removal of artificial restraints on the movement of goods, services and capital, whether publicly or privately imposed. We seek to reduce tariffs, eliminate quotas, get rid of cartels, do away with exchange restrictions, get rid of restraints on foreign investment, etc. The burden of the program is that the government should interfere as little as possible with the free market, but should act as the promoter and guardian of conditions under which the market can operate most effectively.

This conception of the role of government is not shared by many other countries of the free world. To these countries, therefore, there appears to be a contradiction between our vast responsibilities as leader of the free world and what seems like the absence of a bold, positive and constructive program except in time of emergency. It is this difference in basic premises as to the function of government that gives rise to a great deal of misunderstanding and disappointment abroad in regard to our economic policies.

Two examples will serve to illustrate the problem. Raw material producing countries expect us, as the largest consumers of raw materials, to take affirmative action to stabilize the markets for their products. In reply we have pointed out how attempts to interfere with the free market in domestic agriculture have gotten us into major difficulties, how the most constructive contribution toward greater stability which we can make would be to avoid procurement practices which disturb world prices and to temper the fluctuations in our own economy. Similarly, some underdeveloped countries expect the US itself to assume a major financial obligation for economic development. Our position has been, however, that private capital must provide the main source of foreign investment. Except for special situations, the direct US contribution should be limited to technical assistance and a limited amount of public lending. In many foreign countries, particularly in the underdeveloped areas, these policies give rise to a feeling that the US has not measured up to its responsibilities.

A major task for US foreign economic policy is to get across to other countries an understanding of our conception of the role of government in economic affairs.

The President's Program

Against a background of such understanding the program which the President presented on March 30 in his message on the Randall Report will be regarded as a forward-looking and constructive approach to our foreign economic policy. The President's message contains recommendations on the subjects of tariffs and the General Agreement on Tariffs and Trade, customs administration and procedures, US investment abroad, Buy American legislation, raw materials, shipping, international travel, economic aid and technical assistance, East-West trade and convertibility. A copy of the President's message and a detailed summary of the proposals contained therein are attached.[a]

The Department should take advantage of every opportunity to support the President's message. Particular emphasis should be

[a] Attachments are not printed. Regarding the President's message, see the editorial note, *supra*.

placed on his statement: "If we fail in our trade policy, we may fail in all. Our domestic employment, our standard of living, our security, and the solidarity of the free world—are all involved."

Pending action on the President's message, the Department should seek a moratorium on actions by other agencies inconsistent with the spirit of the message. Examples include Treasury's use of anti-dumping legislation to restrict imports from Finland and other sensitive areas; the sudden raising of import duties by reclassifying items which have previously entered under lower rates; periodic threats of countervailing duties; Agriculture's use of Section 22 restrictions on agricultural imports.

Other Measures

The Department should begin a review of measures not included in the President's message which would help maintain a position of constructive leadership in the economic sphere. The following are illustrative of subjects for such a review:

(a) Consideration should be given to the possibility of adapting our stockpile policies as a specific means of contributing toward greater stability in the markets for basic commodities exported by underdeveloped countries. Policies have already been adopted by the Office of Defense Mobilization to make certain that excess commodities acquired under materials expansion program contracts do not produce serious adverse market effects. These policies are essentially preventive rather than affirmative stabilization measures. In the new long-range "safe level" stockpile policy, recently announced by the White House, the basis is laid for more affirmative steps to stabilize the markets for strategic minerals through the concentration of purchases in periods of distressed market conditions. While the announcement emphasizes that preference will be given to minerals of domestic origin, purchases abroad are not precluded. Regardless of the origin of the materials purchased, however, a positive contribution to international commodity stabilization can be made by counter-cyclical purchases of materials that are traded on world markets. Can the new policy laid down by the White House announcement of March 26[9] be so developed and carried out as to meet some of the legitimate hopes of the underdeveloped countries in this matter?

(b) Once the President's domestic agricultural program is adopted, the US should consider strengthening its policy with respect to the avoidance of agricultural import restrictions. One of the weakest points in any effort to assume economic leadership is our inabil-

[9] On Mar. 26, 1954, President Eisenhower announced the establishment of a new stockpiling program calling for the expanded purchase of about 40 minerals over a long-term period.

ity to make commitments on the avoidance of such restrictions Section 22 of the Agricultural Adjustment Act requires the President to impose import restrictions, despite any international agreement to the contrary, whenever he finds that imports are interfering with a domestic price-support program. This provision has compelled us to violate the GATT; it may compel us, on renegotiation of the instrument, substantially to weaken the existing commitments contained in it. This fact is strengthening the hands of agricultural protectionists throughout the world, especially Western Europe. It is likely to be one added deterrent to any efforts we may make toward agricultural integration in that area. And in any case it is likely to damage our own agricultural export markets in the long-run.

(c) On April 16, 1953, the President stirred the world with his pledge that a portion of any savings from world disarmament might be used by the US to help underdeveloped areas. This speech was not referred to in the Randall Report nor in the President's message on the Report. The omission has been widely noted. The US should carefully consider whether the appeal of the President's earlier pronouncement should be allowed to lapse. If not, what actions would we be prepared to take to regain and retain the initiative?

(d) The President's message on foreign economic policy recognized the importance of encouraging an increased flow of private capital abroad and proposed tax changes and enlarged guaranty coverage to stimulate such a flow. These measures may be partially effective but the political hazards of foreign investment will continue to be a strong deterrent. If private capital could move abroad under the umbrella of a combined public-private agency, the political hazards would be significantly reduced. In this connection, it is well to note one of the recommendations of the Report of Lewis Douglas to the President: "In the immediate future, however, it may be practicable to focus our ingenuity on valid devices which might provide a reasonable transition from a period in which American dollars, through public agencies, have been invested overseas and the period when the flow of private capital becomes adequate. To this end, a combination of agencies of governments working in association with private management and capital might perform a useful service". Consideration of "valid devices" of this character might well be undertaken.

(e) A related problem not dealt with in the President's message concerns measures to stimulate local private investment abroad, particularly in the less developed countries. While this is essentially a problem for the governments and peoples concerned, further study should be given to measures we can take to encourage such

investment, as for example, by supporting the establishment of domestic development banks abroad to provide capital to local private investors.

(f) Continued active study should be given to the peacetime uses of atomic energy, particularly as they affect economic development. We might also give some consideration to the feasibility of establishing one or more regional nuclear research centers, as for example a Latin American center, to which we would make available nuclear reactors for experimental purposes. An offer of this kind might be useful in itself, to the extent that there were technically trained persons in the regions who could carry forward research, but beyond that such an offer would have a powerful appeal. Atomic energy has a "mystique" of its own. It would gratify the intense desire of less developed countries to be associated in atomic research.

A/MS files, lot 54 D 291, "Committees"

The President to the Director of the Bureau of the Budget (Hughes) and the Chairman of the President's Advisory Committee on Government Organization (Rockefeller)

WASHINGTON, July 12, 1954.

DEAR SIRS: Over the past several months it has become increasingly apparent that we are going to be faced with a continuing series of complex problems in the foreign economic field which not only will involve over-all foreign policy, but will often directly affect basic domestic policy questions.

In discussions with you and others as to the manner in which the Executive Branch has handled these problems over the last year, my attention has been called to difficulties which may be attributed at least in part to inadequacies in the organizational structure for handling the development and implementation of foreign economic policy.

I am impressed with the fact that at present, the Executive Branch lacks an orderly way of identifying and reconciling conflicting points of view and interests in the development of long-range international economic objectives in support of our foreign policy as well as in the development of policies and programs to achieve those objectives. This is also true in arriving at solutions to individual foreign economic problems in a way that reflects our best overall national interest. Some of these problems have been handled by the State Department, some by one or more of my immediate assistants, some by Cabinet Committees, some by the National Advisory

Council, and in a few cases by the National Security Council or the Cabinet. Despite the best efforts, the handling of such problems on an *ad hoc* basis has not always produced the timely or decisive action required by the seriousness or urgency of the problem encountered.

Accordingly, I desire as a matter of high priority, that my Advisory Committee on Government Organization and the Director of the Bureau of the Budget collaborate in a study of the suitability of existing organizational machinery for the formulation and implementation of foreign economic policy within the framework of our overall foreign policy, and develop specific recommendations for my consideration.

I agree with your suggestion that, in order to assure that this study has full-time top-level direction, the Committee and the Bureau of the Budget should secure to direct the staff work of this project a top-notch individual thoroughly familiar with this problem and well versed in high-level government organizational relationships.[1] I am sure you will also have the full cooperation of all officials of the Government who can contribute to the success of this project.

Sincerely,

DWIGHT D. EISENHOWER

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[1] Joseph M. Dodge, who resigned as Director of the Bureau of the Budget in March 1954, was asked to direct the project and he was charged with responsibility to prepare a report for the President. For information concerning the report, see the editorial note, p. 104.

411.0031/8-2454

Memorandum of Conversation, by Francis F. Lincoln of the Bureau of Near Eastern, South Asian, and African Affairs

CONFIDENTIAL [WASHINGTON,] August 24, 1954.

Subject: Proposal for a New U. S. Foreign Economic Policy. Meeting was held in Room 5159 New State.

Participants: P—Robert R. Bowie
ARA—Henry F. Holland
NEA—John D. Jernegan
EUR—Livingston Merchant
E—Samuel Waugh
R—Fisher Howe
C—Douglas MacArthur II
C—William J. Galloway
FE—Charles F. Baldwin

E—John Loftus
S/P—Charles Stelle
R—Philip Watts
NEA—Francis F. Lincoln

The meeting was called to discuss the "Proposal for a New U.S. Foreign Economic Policy" prepared following a talk between C. D. Jackson and the Secretary. The report[1] was prepared at Jackson's request by the Cenis Center at M.I.T. under the direction of Max Millikan and Walter Rostow.

After some general comment on the proposal it was stated that the study[2] being worked up by Charles F. Baldwin is similar, except that it is limited to South and Southeast Asia.

The meeting was told that the Secretary favored an economic plan with some such purposes (the scope was not stated), and that (a) our own interest could not let the peasant peoples stew along and (b) there should be no tie in the economic plan to military pacts.

Mr. Holland spoke concerning the position he believed we should take at the Rio meeting. We should urge accelerated economic development in Latin America, and should make a substantial contribution in capital and technical knowledge. Financing should be available through the IBRD and EXIM for all sound economic development projects within their borrowing capacity (where private capital is not available). We should urge foreign governments to set goals.

For Latin America he favored loans not grants.

He said that estimates, duly hedged, were that not over a billion dollars would be required for Latin America for the next five years.

He suggested that a group study the amount of public and private investment required for Latin America.

Mr. Baldwin said free Asia presented two categories of problems:

1. Those of Japan, which are similar to the problems of Post-War Europe.
2. There are a different set of problems in the primitive economies of the rest of the area.

He believes that if conditions in the primitive places can be dealt with, Japan will benefit.

If we could support a program providing $10 billion of external capital to the primitive economies over the next 10 years, the resulting increased development would let them go ahead on their own thereafter for the most part.

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[1] No copy of the report was found in Department of State files.
[2] Not identified.

He has been working up a proposal for broad economic development in Southeastern Asia to offset aggressive Communism. He suggested a sort of Asian OEEC; while the U.S., the U.K., Australia, New Zealand and Canada would be identified with it, the operation would be mainly Asian.

The Colombo plan[3] at first seemed undesirable as the mechanism; it is not an organization, and is closely identified with the British Commonwealth, however, on reflection it may be best to use it in expanded form. He suggested a Board of Governors, technical committees, and operation through loans, but loans repayable in local currency, rather than grants. He emphasized that the U.S. should not in any way dominate the scene, and it would be essential to success that no political strings such as military commitments be tied to participation.

He said that it had been estimated that $600 million a year of outside capital supplied to Southern and Southeast Asia would just about keep the living standards of the people from deteriorating. $1,000 million a year is required for standards to advance.

Mr. Merchant said he thought we were giving mistaken priorities. Congress would not go very high in its aid appropriations and other areas demanded prior consideration as we must not abandon our present friends. He then listed:

Special situations in Europe and the Near East such as West Berlin, Spain, Yugoslavia and Egypt.
Latin America
Eastern Asia, Indo China ($700 million for army and budget support)
Formosa and Japan (several hundred million each) and Korea perhaps $700 million and than the Philippines, Thailand and Pakistan.

He believed that this would exhaust funds likely to be voted by Congress.

This, it was agreed, raised fundamental issues. Mr. Bowie asked whether we should always favor the countries loudest in espousing our aims, and spend large sums in building armed forces that could not contain a Chinese attack, while leaving vast areas with huge populations to fall to the Communists as their desire for better living is not met? Is the risk of military aggression so serious that the inner sociological-political danger should be ignored?

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[3] A 6-year program for cooperative economic development in South and Southeast Asia established by the British Commonwealth nations in 1950; for additional information, see *Colombo Plan for the Co-operative Economic Development in South and Southeast Asia: Report by the Commonwealth Consultative Committee* (London, 1950).

The view was expressed that we should continue to support armed forces in Korea, Formosa and Japan, but that it was equally important to improve living conditions of the more primitive peoples. It was also pointed out that building up the economies of the primitive states would improve the position of the Japanese economy.

There was discussion of the unwillingness of Congress to appropriate money for foreign aid, of less unwillingness to appropriate money for loans than for grants, even loans repayable in the currency of the borrowers, and of the necessity to make clear the urgency and the risks in the situation in Southern Asia. Mr. Jernegan pointed out that the total foreign aid at present plus the amount mentioned as required to carry out this proposal was not as great as amounts voted a few years ago, and that if the issues were understood it did not seem impossible that means would be provided.

Mr. MacArthur commented on the difference between conditions in Europe in 1950 and in South Asia in 1954.

In 1950 Europe had a fear psychosis that Russian Armies would roll to the channel.

In 1954 Southern Asia is in real danger because of the deterioration in living conditions.

Before adjournment there was general agreement (Mr. Merchant had left, but had modified his initial position and seemed close to agreement on the three points).

1. On the desirability of some such operation as described in the Jackson report and that U.S. aid to improve living conditions in South and Southeast Asia should rank with expenditures to support and maintain the military forces of friendly nations.
2. That military conditions should not be tied to the aid.
3. That aid should be primarily in the form of loans repayable in local currency.

100.4 FEP/9-154

Memorandum of Conversation, by the Assistant Chief of the Commercial Policy Staff, Office of Economic Defense and Trade Policy (Weiss)

LIMITED OFFICIAL USE [WASHINGTON,] September 1, 1954.

Subject: Meeting of Randall Committee[1] on General Review of Administration's Foreign Economic Policy Program

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[1] See the editorial note, p. 49.

Participants: Mr. Clarence B. Randall, Special Consultant to the President
Mr. John H. Stambaugh, Assistant to Mr. Randall
Mr. Benedict, White House staff
Messrs. Overby, McNeill and Hebbard, Treasury
Mr. Hutchinson, Budget
Mr. Rossiter, Agriculture
Mr. Marget, Federal Reserve Bank
Mr. Wormser, Interior
Mr. Thorpe, Defense
Messrs. Anderson and Simpson, Commerce
Mr. Arnow, Labor
Messrs. Waugh and Weiss, State

General

Mr. Randall indicated that the purpose of the meeting was to take a long look ahead and review the elements in the President's foreign economic policy program for the coming year.

He indicated that the "party line" remains the Randall Commission Report and the President's message of March 30 on foreign economic policy. He said that those points of the message which were not accomplished were ones which he felt should be pursued. He requested any ideas that people may have. He said that the feeling he gets of opinion around the country is that the President's foreign economic program is right, that there were good reasons why the Administration could not move ahead farther last year, and that it should move ahead on the unfinished elements in the program this coming year.

Kean Bill[3]

Mr. Randall indicated that it was his view that the Kean Bill should be reintroduced. Mr. Randall reported that Congressman Kean gives every indication that he is prepared to serve again as an enthusiastic spokesman for the bill.

Mr. Randall noted that there were some suggestions that perhaps the bill should be strengthened and requested any views on this point. The general consensus of the group, as reflected in specific comments by Messrs. Marget, Overby and Anderson, was that it would be better to leave what has already been agreed upon alone and keep the bill as it is.

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[3] H.R. 8860, providing for extension of the President's authority to enter into trade agreements under Section 350 of the Tariff Act of 1930, was introduced by Representative Robert W. Kean (N.J.) on Apr. 15, 1954.

Administrative Machinery

Mr. Arnow raised the question as to whether the Administration should not try to determine before the next session of Congress as to how the authority in the Kean Bill should be administered by the Government and be prepared to envisage any changes which might be made in the existing administrative arrangements for conducting the trade agreements program and other elements in the Administration's foreign economic policy program. It was felt that Mr. Arnow had raised an important point which should be examined. It was agreed that the Trade Agreements Committee should study the matter and report back to the Randall Committee.

Customs Field

Mr. McNeill reported on what had been accomplished in this field and the present status of various customs matters. *As regards the matter of simplification of tariff classifications,* Congress had passed the bill requiring the Tariff Commission to study the matter and report to the Congress and the President the tariff simplifications which might be made.[3] The question remained of getting authority from the Congress to put simplified tariff classifications into effect, and this in turn raised the question of getting approval from the Congress of standards on the basis of which it might delegate such authority to the President. Mr. McNeill indicated that the next session of Congress, after the Tariff Commission had made its preliminary report, might be the time to seek such standards.

As regards valuation, Mr. McNeill indicated that the Jenkins Bill[4] had been killed and that there, therefore, remained the question of getting further action in this field. To this end Treasury is now making a further study of the factual situation in order to provide effective answers to questions which had been raised on the Jenkins Bill. Mr. Randall indicated that it was important to keep working on the chemical industry in order to lessen its opposition.

Mr. McNeill noted that under the legislation passed this year Treasury was instructed to maintain a *continuing review of customs administration* with a view to lessening the obstacles such administration may present to trade. Mr. McNeill indicated that Treasury plans to have further recommendations on this matter before the next session of Congress.

Mr. Randall stressed that it would be extraordinarily helpful to our relations abroad if Treasury could from time to time make some announcements of things it was doing to simplify our customs

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[3] Reference is to the Customs Simplification Act of 1954 (Public Law 768), approved Sept. 1, 1954; for text, see 68 Stat. 1136.

[4] Apparent reference to H.R. 9347, amending the Tariff Act of 1930, introduced by Representative Thomas A. Jenkins (Ohio) on May 26, 1954.

administration. He observed that there was enormous interest on the part of foreign countries in this matter and that any steps we took to make our customs administration less complicated would have great effect abroad. He urged Treasury to see what it could do in this regard.

As regards the Frelinghuysen Bill[5] *on tourist travel,* Mr. Anderson indicated he was discouraged about the possibility of getting Congressional action on it. The view of the group was that efforts should be continued to get such action. Mr. Randall said that he thinks the bill is a good idea and that he will keep it in the program. Treasury indicated that it was working with Commerce to develop statistical information on travel.

Foreign Investment

Mr. Anderson raised the question as to whether it would be desirable to make a new approach on the matter of tax exemption for investment abroad in view of the opposition which had arisen to this proposal in the last session of the Congress. He suggested making bilateral agreements on investments as a basis for obtaining income tax exemption. Mr. Waugh indicated that he had some concerns about such an approach. Mr. Overby said that Treasury had looked into the matter previously and did not take a favorable view on this approach. Mr. Randall stated that his Commission had studied this possibility but decided against it. He suggested that Treasury study the matter and that it be discussed with Mr. Whitney,[6] who was responsible for the investment field on the Randall Commission.

The foregoing discussion led Mr. Anderson to ask whether the door was open, so far as possible inclusion in the President's program was concerned, to new thinking in the field. Mr. Randall replied affirmatively. He emphasized that what he had tried to indicate earlier was that the "tone, direction and substance" of the President's March 30 message was to be taken as the mandate on the basis of which the Administration was to operate, but this did not preclude possible changes on particular aspects.

Buy American Act

It was agreed that it would not be desirable to seek any legislation in the next session for the repeal of Buy American legislation.

In connection with the recent decision of the Cabinet on the policy to be applied with regard to the Buy American Act but not to issue any formal order for the time being to implement the

[5] Reference is to H.R. 8352, providing for an increase in the duty-free allowance for tourists, introduced by Representative Peter Frelinghuysen, Jr. (N.J.) on Mar. 11, 1954.

[6] John Hay Whitney.

policy, Mr. Thorpe raised the problem of enforcing the policy without any such formal order. He expressed doubt as to the feasibility of operating without a formal order and pointed out that to his knowledge no directive had gone out to U.S. fleet services abroad and that, accordingly, their procurement operations could not have been affected by the recent Cabinet decision.

Escape Clause and Peril Point Provisions[7]

Mr. Randall indicated that suggestions had been made that the peril point and escape clause provisions in the Trade Agreements Act should be repealed. He asked for views on this point. Mr. Waugh doubted that it would be possible to get either provision repealed. This appeared to be the consensus of the group.

Question was raised as to whether it might be possible to eliminate the peril point while retaining the escape clause. The general view appeared that it would not be possible.

It was pointed out that while it might not be possible to eliminate the escape clause, it was worth considering whether something might not be done so as to prevent frivolous applications and immediate resubmittal of applications on which escape clause action had just been turned down. It was suggested that perhaps the Act should be loosened up so as to give the Tariff Commission the discretion it once had to throw out applications for action when there was an *a priori* case against such action. Mr. Randall thought this was a good idea and suggested that it be discussed with Mr. Brossard.[8]

50–50 Shipping Provisions

There was discussion as to whether an effort should be made to eliminate the 50–50 shipping provisions. It was suggested that perhaps the 50–50 requirements might be waived in cases where the President might negotiate a reciprocal agreement with other countries prohibiting such preferences. Mr. Hutchinson expressed doubt about the acceptability of this approach and suggested that it would be wise to examine the question of direct subsidy as a substitute for 50–50 requirements.

Mr. Waugh expressed doubt as to the wisdom of attempting to seek action for repeal of the 50–50 shipping requirements next year. He pointed out that the Administration will have enough on

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[7] The peril point provision was embodied in Section 3 of the Trade Agreements Extension Act of 1951. That section of the act provided for a finding by the United States Tariff Commission to indicate the limit or point to which a tariff rate might be reduced without causing or threatening to cause serious injury to the domestic industry producing like or competitive articles. For information concerning escape clause provisions, see the memorandum dated Feb. 25, 1953, under "No-injury Test," p. 151.

[8] Edgar B. Brossard, Chairman, U. S. Tariff Commission.

its hands to get through the major elements of its program in the trade field and that it should, therefore, concentrate on these elements and not take on additional burdens in the shipping field.

Mr. Weiss noted that there may be a possibility that the elimination of the 50–50 requirements only for countries with which reciprocal agreements had been concluded might be inconsistent with non-discrimination commitments the United States might have under FCN treaties. He suggested that if this approach were to be pursued, study should be given to this aspect.

Agricultural Provisions—Section 22

Mr. Randall called the attention of the group to the importance of doing something about Section 22 and our agricultural commitments in the GATT.

Reference was made to the statement on agricultural policy [9] worked out in the Francis Committee.[10] While it was agreed that this was a step forward, Mr. Randall noted that the question still remained of how to adjust our agricultural commitments in the GATT in the light of Section 22.

Technical Assistance Program

Mr. Overby reported on the status of SUNFED and the proposal for an International Finance Corporation.[11]

Mr. Arnow noted the failure of Congress to make any appropriations for the UN technical assistance program in 1955. He urged that the Administration should seek such an appropriation. Mr. Randall raised the question as to whether this was a point which should go into the State of the Union Message.

Surplus Disposal [12]

Mr. Thorpe raised the question of U.S. measures in the field of surplus disposal and stressed the necessity for reassuring foreign countries in this regard.

Other Matters

There was brief reference to the question of the travel tax in Latin America and to developments in the field of currency convertibility.

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[9] Reference is to the "Statement of Policy on Foreign Trade as Related to Agriculture," released by President Eisenhower at Lowry Air Force Base, Denver, Colorado, Sept. 9, 1954; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954*, pp. 841–843.

[10] Apparent reference to the Interagency Committee on Agricultural Surplus Disposal (commonly called the Francis Committee after its Chairman, Clarence Francis), formally established on Sept. 9, 1954.

[11] For documentation on these subjects, see pp. 227 ff.

[12] Of agricultural products.

As regards the Delegation to the coming GATT session,[13] Mr. Randall announced that Messrs. Parker [14] and Fleming [15] had accepted invitations to be on the Delegation. Mr. Waugh reported that Congressmen Cooper [16] and Simpson [17] and Senator Gore [18] were to be on the Delegation but that Senator Millikin [19] had declined.

Mr. Randall reported that Mr. Schram of Iowa had been appointed as the new Director of the Coleman Committee.[20]

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[13] Reference is to the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, held in Geneva, Oct. 28, 1954–Mar. 7, 1955. A list of the members of the U.S. Delegation to the Ninth Session is printed in the Department of State *Bulletin*, Nov. 8, 1954, p. 711.

[14] Cola G. Parker, Chairman, Board of Directors, Kimberly-Clark, Inc., Neenah, Wisconsin.

[15] Lamar Fleming, Jr., President, Anderson, Clayton and Co., Houston, Texas.

[16] Jere Cooper (D.–Tenn.).

[17] Richard M. Simpson (R.–Pa.).

[18] Albert Gore (D.–Tenn.).

[19] Eugene D. Millikin (R.–Colo.), Chairman, Finance Committee.

[20] Reference is to the Committee for a National Trade Policy, commonly referred to as the Coleman Committee after its Chairman, John Coleman, President, Burroughs Manufacturing Company.

340/9-1354

Memorandum by the Senior Adviser to the United States Delegation to the United Nations (King) [1]

CONFIDENTIAL NEW YORK, September 9, 1954.

A POSITIVE U.S. ECONOMIC PROGRAM IN ECOSOC—IS IT POSSIBLE?

1. Introduction

It has been said that we have come to have nothing but a negative attitude in ECOSOC,* and consequently the United States fails to exercise leadership and the USSR is enabled to seize the initiative. An examination of the economic items on the agenda of the 18th ECOSOC Session [2] and our position thereon leaves little doubt

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[1] Transmitted to the Department of State under cover of despatch 211, from New York, dated Sept. 13, 1954, not printed.

**Cf.* New York meeting of Preston Hotchkis, U.S. Representative in ECOSOC, on June 16, 1954 with representatives of the oil industry and of business, industry and labor; New York meeting of Nat B. King and Richard F. Pedersen, USUN, on June 18, 1954, with representatives of non-governmental organizations accredited to the U.N.; U.S. Delegation Report on 18th ECOSOC session at Geneva, pp. 1, 2. [Footnote in the source text.]

[2] The 18th session of the U.N. Economic and Social Council (ECOSOC) was held in Geneva, June 29–Aug. 7, 1954.

but that the United States was against most of the important proposals.

Leaving aside USSR proposals with respect to trade,† which are dealt with later,‡ and social and miscellaneous items,§ the U.S. position was flatly negative on four out of the five principal economic items on the agenda, viz., item 3(a)(i), Question of establishing a special fund for grants-in-aid and for low-interest, long-term loans (SUNFED); item 3(a)(ii), Report of the International Bank for Reconstruction and Development on the question of creating an international finance cooperation (IFC); item 10, that part of the Report of the Commission on Human Rights Tenth Session recommending the establishment of a Commission to survey the status of the right of peoples and nations to self-determination with respect to permanent sovereignty over their natural wealth and resources;‖ item 29(b), Constitution of a Commission on International Commodity Trade (PAC). An exception was the U.S. position on item 8(b), French proposals to centralize U.N. control of the Expanded Program of Technical Assistance at the expense of the specialized agencies. Even here the U.S. position lagged behind that of the majority.

Our attitude on these matters cannot be accounted for simply by a failure to be positive. Neither can it be accounted for simply by a failure to seize the initiative in the cold war. As four of the five economic items listed above involved U.S. financial aid, it is necessary to first consider their monetary implications. Thereafter, political implications need to be examined in order to ascertain whether it is possible for the U.S. to be other than negative in ECOSOC.

2. Important Economic Items at the 18th ECOSOC Session

SUNFED would consist of an international fund (the greatest contribution coming from the United States) administered by the United Nations to assist the economic development of *underdeveloped countries.* The initial sum of 250 million dollars suggested by the Committee of Experts is recognized as only the minimum amount needed to permit the fund to be organized. The resources required for such a grandiose task would be limitless. With present world tensions and taxation of the American people for arma-

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†Agenda item 2(c), Removal of Obstacles to International Trade and means of developing international economic relations. The USSR also injected the question of trade into the subject of full employment (agenda item 2(b)) and the Report of the Economic Commission for Europe (agenda item 5). [Footnote in the source text.]

‡See Part 5. [Footnote in the source text.]

§This memorandum is confined to economic matters only. [Footnote in the source text.]

‖This item, while coming from the Commission on Human Rights, is entirely in the economic field. [Footnote in the source text.]

ments, there is little likelihood that the Congress would make an appropriation to even permit SUNFED to get started. Such a fund involves a commitment of long duration, and once started, failure of the United States to continue to contribute thereto could only engender bitter disappointment in the underdeveloped countries. Furthermore, there has been no change in the world situation such as envisaged by President Eisenhower in his December 1953 address to the last General Assembly:[3] sufficient progress in international supervised world-wide disarmament which might permit the U.S. to devote a portion of the savings from such disarmament to an international fund to assist development of the under-developed countries. Neither does the situation seem to permit of an immediate concomitant diversion of savings from defense expenditures to SUNFED as suggested at the 18th ECOSOC Session.¶

IFC would be, in effect, an international Reconstruction Finance Corporation. It would be organized as an affiliate of the International Bank and seek to promote private investment in *underdeveloped countries,* through loans without government guarantee and through equity investments. The International Bank, at the request of ECOSOC, has submitted two reports on IFC (1953 and 1954) which in substance conclude that the initial capital must be provided by governments and, as the U.S. has not agreed to subscribe, sufficient financial support is not likely to be forthcoming to justify IFC's creation.** Present U.S. policy is to provide public funds for the making of unguaranteed loans abroad through the Export-Import Bank. IFC would cause the U.S. government to enter into partnership with private ventures abroad under U.N. auspices. Lack of capital is not a deterrent to American private foreign investment. It is due, in the main, to an unfavorable climate for foreign investment in capital importing countries.

The Human Rights Commission at its tenth session recommended the establishment of a Commission to survey the right of peoples and nations to self-determination with respect to "permanent sovereignty over their natural wealth and resources".†† The Commission was given the broadest terms of reference, with no obligation to consider compensation for the taking of vested interests in natural resources, international agreements, or international law. The context out of which this resolution arose indicates that the Commission would investigate specific concessions in *underdevel-*

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[3] For text of President Eisenhower's address before the U.N. General Assembly concerning "Peaceful Uses of Atomic Energy," Dec. 8, 1953, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953,* pp. 813–822.

¶Yugoslav draft resolution, Document E/L.620. [Footnote in the source text.]

**Document E/2616. [Footnote in the source text.]

††Document 2573. p. 77. [Footnote in the source text.]

oped countries. The establishment of such a Commission would not be a passive act such as the 1952 General Assembly resolution on exploitation of natural wealth and resources (G.A. Resolution 626 VII). The proposed Commission would constitute a continuing inquiry into the rights of private capital abroad, and thereby neutralize the U.S. sponsored resolution to promote private foreign investment adopted by ECOSOC at its 17th Session (ECOSOC Resolution 512B).

PAC was established by the Council at its 17th Session with the main task of seeking to maintain a just and equitable relationship between the prices of primary commodities and the prices of manufactured goods in international trade (ECOSOC Resolution 512A). Its organization was postponed until the 18th Session when it was rechristened the Commission on International Commodity Trade, to consist of eighteen experts appointed by eighteen members of the U.N. elected by the Council.‡‡ This Commission amounts to a sort of junior ECOSOC to consider almost any problem connected with international commodity trade. Recent U.S. policy has generally been against international control of commodity prices. Our limited participation in such schemes has been confined to those dealing with a single commodity. Congressional antipathy toward PAC has been direct and specific.§§ Arrangements to control the international price of primary commodities usually require financing, e.g., buffer stocks, compensation schemes, etc.‖‖ Thus, notwithstanding the real problem of instability in prices of primary commodities confronting the underdeveloped countries, the U.S. attitude is entwined with financial considerations, both of the use of public funds and of artificially increased costs to the American consumer.

3. Financial Implications of Principal Economic Items at 18th ECOSOC Session

In the light of the above, the saw that ECOSOC always has its hand in Uncle Sam's pocket seems a truism. To have voted in favor of SUNFED, or IFC, would have committed U.S. public funds. To have voted in favor of PAC might have impliedly done so. To have supported the Commission on the right of self-determination over natural wealth and resources would have run counter to the protection and encouragement of American private investment abroad. In the present situation, both international and congres-

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‡‡Argentine Draft Resolution (E/AC.24/L.79/Rev.4). [Footnote in the source text.]

§§Hearing before Special Senate Subcommittee on Minerals, Materials, and Fuel Economics, May 26, 1954, Part 5, pp. 1–53. [Footnote in the source text.]

‖‖Commodity Trade and Economic Development, Document E/2519, *passim*. [Footnote in the source text.]

sional, it is difficult to see how the U.S. position on any of these four items could have been other than just what it was—negative.

The one item that was, at least at the beginning of the session, noticeably different was the U.N. Expanded Technical Assistance Program (UNETAP). Even here it cannot be said that on the particular phase of this subject under consideration, the administration of the program (agenda item 8(b)), the U.S. had the initiative. In January of this year the French had taken the lead on centralization in the Technical Assistance Committee (TAC).¶¶ At the 17th Session of ECOSOC the Council requested TAC to suggest proposals on the matter for consideration at the 18th Session.* At that time a majority of governments, although not the U.S., strongly supported the French proposals for tightening up organization, centralizing financial control and improving flexibility of appropriation of funds.† The U.S. delegate to ECOSOC accordingly recommended that a U.S. position be developed, strongly directed at the top, to arrive at one of the following alternatives: (1) a U.S. plan which would effect closer centralized control and improve flexibility of appropriations and distribution to specialized agencies or, (2) approve the French plan with or without modifications.‡ The U.S. position developed for the 18th ECOSOC Session was still considerably behind the original French proposals. The underdeveloped countries desired to reduce even further the authority of the specialized agencies and to eliminate any guaranteed percentage of funds to the agencies. Due to the efforts of the U.S. Delegation these extremes were avoided.

What was different was that *before that time* the U.S. had definitely committed itself to aiding underdeveloped countries through technical assistance administered by the United Nations. While unilateral aid (Point Four) was being continued, part of U.S. public funds for this purpose was being appropriated by Congress direct for use by the United Nations. The U.S. has not been negative in ECOSOC on this subject only because it was committed to supplying funds to the underdeveloped countries through the U.N.

Because of their interest in certain of the specialized agencies, (Labor in the International Labor Organization (ILO), Health and Welfare in the World Health Organization (WHO), Agriculture in the Food and Agriculture Organization (FAO)), some of the Washington Departments objected to the centralization of control of U.N. technical assistance activities. Agriculture's opposition to centralization was ineffective in the Executive Branch, but the same

¶¶E/TAC/32; Document E/2558. [Footnote in the source text.]
*ECOSOC Resolution 521(XVII). [Footnote in the source text.]
†USUN tel. 576, April 3, 1954. [Footnote in the source text.]
‡*Ibid.* [Footnote in the source text.]

opposition appeared in Congress when appropriations for the Expanded Technical Assistance Program were being considered. A move developed in the House to give FAO a separate allocation of funds without regard to the U.N.§ One result was a Senate Appropriations Committee Report‖ requiring a study by the Committee of the relationship of the U.S. Government to the whole multilateral technical assistance program. This is to include the effect the U.N. technical assistance program is having upon the functioning of the specialized agencies. This investigation should decisively determine whether the U.S. can continue to be positive on at least one important item in ECOSOC.

The insistence of the specialized agencies for a free hand with technical assistance funds provided through the U.N. is understandable. FAO, for example, now receives almost as much money through the U.N. as it does from its regular budget—regular budget for 1954 $6,040,000, ETAP budget $5,688,500.¶ The ratio of UN ETAP budget to regular budget for other specialized agencies is: WHO—53.1 per cent, ILO—34.2 per cent, UNESCO—30.6 per cent.** What is directly involved is whether U.S. funds for technical assistance will continue to be provided through the U.N.††

A similar decision would appear necessary with respect to other financing of the economic development of the underdeveloped countries and of dealing with international primary commodity prices if we are to have anything resembling an affirmative policy in ECOSOC. There must, it would seem, be a prompt basic decision as to what part, if any, of U.S. foreign, non-military aid is to be expended through the United Nations. All that is attempted here is to pose the question without presuming to suggest an answer. Nevertheless, it seems questionable whether the U.S. can effectively take the lead in the economic sphere in the U.N. unless it is willing to pay for whatever advantages, if any, that a truly affirmative policy might entail.

4. "Underdeveloped" vs. "Developed"

One tends to take for granted that important international affairs revolve basically around the communist vs. non-communist

§Full background of Congressional action on Fiscal year 1955 appropriations for UNETAP is contained in a UNI memorandum dated August 20, 1954, from Mrs. [Virginia C.] Westfall [of the Office of International Administration] to Mr. [Joseph S.] Henderson[, Acting Director, Office of International Administration]. [Footnote in the source text.]

‖Calendar No. 2343, Report No. 2268. [Footnote in the source text.]

¶Document A/2661, p. 2. [Footnote in the source text.]

**_Ibid._ [Footnote in the source text.]

††In the meantime present legislation prohibits the U.S. from even pledging funds to the U.N. until Congress actually appropriates the money therefor. [Footnote in the source text.]

conflict. Such is not the case in ECOSOC where other fundamental cleavages align the members of the Council. Here the division is between the "developed" and the "underdeveloped" countries and the words strangely enough have common usage. The line is rigid between the have and the have-not, the progressive and the backward, the rich and the poor. Of the present eighteen members of the Council only six fall into the developed category (U.S., U.K., France, Belgium, Australia and Norway) while ten consider themselves underdeveloped (India, Pakistan, Argentina, Ecuador, Venezuela, Cuba, China, Turkey, Yugoslavia, Egypt). The remaining two, the USSR and Czechoslovakia, the Machiavellian self-styled protectors of the underprivileged, almost invariably side with the underdeveloped countries. The underdeveloped bloc is thus in a position to rely on a majority in a straight underdeveloped vs. developed vote, even with occasional desertions to the developed side. It is therefore impossible to consider an affirmative U.S. policy in ECOSOC without constantly bearing this division of the Council in mind. With the precedents for maintaining the present geographical and political balance in the Council, the situation may be expected to continue unchanged.

It now seems to be dogma in ECOSOC that international economic progress, and even international political stability, depends upon the economic development of the underdeveloped countries. Every resolution adopted by the Economic Committee at the 18th Session paid allegiance to this thesis,‡‡ e.g., "Acceleration of the economic development of the underdeveloped countries, particularly in the fields of industry, agriculture and commerce, is of major importance for the achievement of a more prosperous and stable world economy" (*Consideration of the World Economic Situation*); recognizing the need "to promote the economic development of the underdeveloped countries" (*Full Employment*); "Recognizing the contribution which a continuing expansion of international trade can make to . . . economic development of underdeveloped countries" (*Removal of Obstacles to International Trade*). From this one could conclude that a stable world economy, full employment, and international trade all have as a collective *sine qua non* the economic development of the underdeveloped countries.

There is no seeming disposition on the part of any of the underdeveloped countries to rely on private capital. This, they assert is inadequate,§§ and while giving lip service to stimulating its flow most of them in practice do little to attract it. Many of the newly sovereign underdeveloped countries consider foreign private capital

‡‡Document E/2643. [Footnote in the source text.]

§§*Cf.* Council Discussion on SUNFED. [Footnote in the source text.]

as a form of colonialism, while many of the long independent underdeveloped countries consider it a means of exploitation.

The situation in the Council smacks of a naked bid for redistribution of national wealth by the poorer countries of the world. There is always in the background the implication that unless the richer nations, particularly the United States, can provide adequate material assistance the underdeveloped countries must resort to communism and totalitarian means in an effort to lift themselves by their own economic boot straps.‖‖ The underdeveloped countries in the Council are not therefore adverse to exploiting the cold war for their own benefit.

It is not realistic to consider ECOSOC agenda items on important economic matters separately. What the majority of the members of ECOSOC, the underdeveloped countries, are interested in is economic development primarily financed by the United States through the U.N. We must decide whether or not it is in our best interests to give it. If we want to give such aid, we can decide how and go into ECOSOC with a definite plan of our own making. If we don't, we can expect to continue negative. But we make few friends by failing to make up our mind.

For better or for worse, the underdeveloped countries are in a hurry for material growth.¶¶ This impatience to catch up, to become equal with the developed countries is reflected in ECOSOC. In discussing the 18th Session of the Council,* its President (Cooke [4]—Argentina) emphasized the remarks of Secretary-General Hammarskjold [5] that the economic gap between the developed and the underdeveloped countries has tended to widen. The only way, Ambassador Cooke said, to overcome this growing state of unbalance is to speed up economic development of the underdeveloped countries. This correctly portrays the feeling in the Council. It was particularly evident in the debates on SUNFED.†

5. USSR Proposal on Trade

On the surface the underdeveloped vs. developed struggle predominates. Underneath there is a strong current of the cold war which sometimes emerges with considerable turbulence. But at the 18th Session the Soviets "new course" was in full operation. They failed to obtain consideration at the 17th Session of an agenda item

‖‖ "The 'Brown Man's Burden' Analyzed", *New York Times Magazine*, September 5, 1954, pp. 7, 30. [Footnote in the source text.]

¶¶ *Ibid.* [Footnote in the source text.]

* "Appraisal of Work by Economic and Social Council", *United Nations Review*, Vol. No. I, No. 3, pp. 61, 62. [Footnote in the source text.]

[4] Juan Isaac Cooke.

[5] Dag Hammarskjold.

†Summary Record of the 18th ECOSOC Session. [Footnote in the source text.]

entitled "Removal of obstacles to international trade and means of developing international economic relations". It was considered at the 18th Session as item 2(c), a sub-item under "World Economic Situation".

As expected, the USSR used the item as a basis for attacking non-communist control of strategic materials destined to the Soviet bloc and the repression of East-West trade. But they attempted more than propaganda. They proposed a resolution,‡ the most important part of which instructed the Secretary-General of the U.N. to convene an international conference of government experts of States both members and non-members of the U.N. for the purpose of formulating recommendations for developing international trade. In introducing this resolution the USSR delegate said that non-communist trade controls ("discriminatory measures"), had had no effect on the USSR because of her vast resources, but, on the contrary, had acted against the interests of the countries applying them. This theme was echoed by the Czechoslovak delegate, who added that economic realities were persuading the capitalist countries to put an end to the cold war so far as trade was concerned, an obvious reference to the recent revision of the CG/CO.COM. lists.

The Soviet position throughout was mild. In the Economic Committee they sought to find common ground with a U.K. resolution which in the main merely requested the Secretary-General to include in his next World Economic Report an analysis of factors which limit expansion of international trade. While the committee rejected the USSR resolution and adopted the U.K. resolution the Soviets were able in plenary, on the plea of the need for unanimity in the Council, to have the U.K. resolution interpreted to mean that when the Council considers the subject further at its 20th Session the question of convening an international conference of governmental experts is not excluded.

The USSR was successful in further extending ECE resolution 5(IX), adopted unanimously at its Ninth Session, which proposed the organization of trade conferences within the framework of the United Nations between, on the one hand, countries participating in ECE, and on the other, countries participating in ECAFE and ECIA. Again, by an appeal for unanimity and vigorous lobbying, the Soviets succeeded in having ECOSOC adopt a joint Belgian-French-Czechoslovak resolution§ requiring the Secretary-General to prepare a report on the practical conditions whereby Resolution 5(IX) might be effective, such report to be submitted to the three

‡Document E/L.614. [Footnote in the source text.]
§Document E/L.644. [Footnote in the source text.]

regional economic commissions for comment at their next sessions, and the whole matter to be considered by the Council at its 20th Session. Apparently being satisfied with ECE's action on East-West trade, the USSR by this resolution seems to have set the stage for a consideration of trade with China through the medium of ECOSOC consideration of interregional trade.

ECOSOC at its 20th Session (summer of 1955) will thus have squarely before it not only the usual East-West trade situation but concrete proposals to call a world-wide conference to do something about such trade, and probably the matter of trade with Communist China as well.

Prior to the 18th Session the Department suggested that in view of agenda item 2(c) CG/CO.COM. countries might well arrive at a common position on the East-West trade aspects of the item in Paris. So far as we know the matter was not considered by that group. As the subject will presumably arise in the General Assembly this fall when ECOSOC's report is considered, in all of the regional commissions, and in ECOSOC next summer, it would still not seem amiss to try and reach at least a broad general understanding on a common position through CG/CO.COM.

About the only way an affirmative U.S. East-West trade position in ECOSOC can be achieved is through coordinated support of CG/CO.COM. countries that are members of ECOSOC, presently the U.K., France, Belgium, Norway and Turkey.

6. Political Factors in ECOSOC

For the most part, while ostensibly discussing economic matters the Council was also in fact engaged in a political debate wherein diligent effort was made to submerge the communist-non-communist conflict. It is this last factor and the striving of the USSR delegation for "unanimity" in the Council that deserves particular consideration.

In the field of East-West trade the USSR tactics at the 18th ECOSOC Session were but a refurbished continuation of the effort to split the non-communist countries on policies that require, if they are to survive, concerted action. Foreign trade is, of course, a political weapon to the USSR and its vassal states.‖ On the propaganda side the line has heretofore been that trade with the Soviet bloc was equivalent to peace and prosperity. They have recently extended this concept to include its contributing to the economic development of the underdeveloped countries. Recent trade agreements with Argentina and India are a step in this direction. On the concrete side the Soviet line has been to portray an alluring pic-

‖ See *Soviet Strategy in East-West Trade.* OIR/DRS paper, undated. [Footnote in the source text.]

ture of vast prospects of East-West trade, beyond all factual probability in view of Soviet policies.

The true significance of the "new course" economic policy in so far as it affects international trade is yet to be seen. It depends on whether the Soviet bloc seriously intends to appreciably increase its imports of consumer goods and can actually deliver in quantity its new exports such as manganese, chrome, oil and machinery. But at the moment the USSR seems to have the cold war initiative on international trade. We need concerted action stemming from CG/CO.COM, if we are to help this situation in the U.N.

While the Soviet fist was well incased in velvet throughout the session, the tepidness of the cold war in ECOSOC became striking after the Indo-China settlement on July 20th. The Soviets immediately adopted the thesis that agreement with the USSR had been demonstrated and, while not openly said, that this had been accomplished without the United States. From July 20th forward it was almost considered impolite for an animadversion to involve the USSR. The Council's temper has aptly been described by its president (Cooke—Argentina): "I believe that the desire for peace, which seems to be the concern of the hour, has been largely responsible for the calmness of the Council's discussions. It seems that we should have some justification for the belief that there is nothing to prevent the peaceful co-existence of nations with different political ideologies."¶

Soviet diplomacy was skillful in playing upon the recent tendency of the U.K., and France, in particular, to pursue policies independent of the United States. An outstanding example of this was the success of the USSR in having the French and Belgian delegations (both of whom spoke for the new Soviet concept that Council actions should be unanimous) co-sponsor with Czechoslovakia the resolution on interregional trade which originated in ECE. If successfully pursued, the unanimity concept in ECOSOC can be expected to have one of two results—(a) isolate the United States by confronting us with resolutions we cannot support because of principle, or (b) force the United States to support resolutions regardless of principle because we cannot eternally be negative.

Another noteworthy facet of the unanimity concept was the affirmative vote of the USSR on SUNFED, which they have heretofore opposed. This obvious bid for the support of the underdeveloped countries bears close watching. The USSR finally felt obliged to contribute to the U.N. Expanded Program of Technical Assistance presumably because the program benefited the United States. It is not inconceivable for them to make a contribution to SUNFED

¶*Op. Cit.*, note 25. [Footnote in the source text. Reference is to footnote *, p. 99.]

and thereby attempt to steal the whole idea. The wind seems blowing in the direction of Soviet plans to actively participate in the industrialization of the underdeveloped countries.

The USSR participation in the U.N. technical assistance program is of course, fraught with serious political consequences, particularly in regard to furnishing of experts.** What affirmative position we have been able to achieve in ECOSOC by contributing to the U.N. program of technical assistance might well be lost because of USSR participation therein. Congress almost refused to vote funds for the program this year because it believed communist experts participated therein. The extension of communist influence through U.N. technical assistance might well force the U.S. to provide any technical assistance only unilaterally regardless of our position in the U.N. Should this occur the Soviets would have the clear opportunity of dominating the U.N. Technical Assistance program by supplying experts and by increased contributions.

7. Conclusions

From the foregoing it might not be difficult for the U.S. to concur with what an erudite journal†† has said about ECOSOC: "This council's activity is as vast and sterile as the salt sea." But as long as the U.S. is a member of the U.N. we cannot, no matter how tempting, accept that periodical's further conclusion that the U.N.'s economic and social work is done, in practice, by its technical agencies and departments and "it is difficult to see what part of that work would suffer if the Council were to vanish overnight."

So long as we are obliged, by reason of our U.N. membership to sit in ECOSOC, we have no alternative but to make the best of it. Part of this would seem to be to try and be affirmative so long as we do not participate just to be participating and eschew the sacrificing of principle. Then, it would seem, we would be obliged to be negative. The following conclusions are therefore temerariously submitted:

1. There are certain important economic items on which the U.S. cannot be affirmative because of principle, e.g., the weakening of the security of private capital investment abroad. The same seems true of matters where there is definite and strong Congressional opposition.

2. Due to the nature of the subject and U.S. policy, it is difficult if not impossible to be other than negative in East-West trade mat-

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**See USUN Dispatch No. 27, July 9, 1954 [not printed (398.00 TA/7-954)], Department airgram CA-1385, August 25[, 1954] to Paris, concerning sending of Russian engineering experts to India by UNESCO [not printed (398.43 UNESCO/8-2554)]; "Soviet to Give Aid to Poorer Lands", *New York Times*, August 29, 1954, p. 10. [Footnote in the source text.]

††*The Economist*, July 10, 1954, p. 107. [Footnote in the source text.]

ters. But a common policy for ECOSOC should be concerted by CG./CO.COM. for its members who are likewise members of the Council.

3. Given the division of ECOSOC between developed and underdeveloped countries, the United States can achieve a really affirmative economic policy in ECOSOC only if it is willing to contribute financially, under U.N. auspices, to the economic development of the underdeveloped countries. Unless this is done the U.S. attitude in the U.N. on economic issues can be expected, for all practical purposes, to be negative.[6]

[6] In a letter to Secretary Dulles, dated Nov. 22, 1954, the U.S. representative in the Economic and Social Council, Preston Hotchkis, stated that if the United States desired to preserve its prestige among the underdeveloped nations of the free world, it should try to channel the deliberations of U.N. organs into more constructive areas and assume the initiative in proposing sound and positive agenda items. He also recommended that Assistant Secretary of State for International Organization Affairs Key's office be designated to serve as the clearinghouse for suggestions pertaining to new agenda items from other government departments. In a letter dated Dec. 3, 1954, Assistant Secretary Key replied that the Department agreed that a more positive approach in ECOSOC was desirable, and that all officers of the government concerned with GA and ECOSOC affairs had the question of new agenda items constantly under review. (320/11-2254)

Editorial Note

On November 22, 1954, Joseph Dodge submitted his report on "The Development and Coordination of Foreign Economic Policy" to President Eisenhower. The report, which had the concurrence of the President's Advisory Committee on Government Organization and Director of the Bureau of the Budget Rowland R. Hughes, proposed as an interim solution to the problem of coordinating foreign economic policy that the President establish by Executive order a new, high-level foreign economic policy board or committee, representing the executive departments and chaired by a White House official, to identify and to consider major foreign economic policy issues. As a long-range solution, the report recommended the establishment of a statutory advisory body to the President to develop foreign economic policy programs. A copy of the so-called "Dodge report" is contained in PPS files, lot 65 D 101.

On December 11, 1954, President Eisenhower appointed Dodge Special Assistant to the President, and authorized him to establish and to serve as Chairman of a Council on Foreign Economic Policy (CFEP) through which foreign economic policy planning could be coordinated. Initially, the Council was to be comprised of the Secretaries of State, Treasury, Commerce, Agriculture, and the Director of the Foreign Operations Administration. In addition, the President's Administrative Assistant for Economic Affairs, Special Assistant for National Security Affairs, and a member of the Council of Economic Advisers were to serve as ex officio members. For ad-

ditional information, see the White House press release, dated December 11, printed in the Department of State *Bulletin*, December 27, 1954, pages 987–988.

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum by the Special Consultant to the President (Randall) to the President[1]

WASHINGTON, December 7, 1954.

The conclusions on foreign economic policy expressed here have been formed after weeks of discussion with representatives from every department and with many others who have been consulted.

These conclusions are based squarely upon the Special Message of March 30, 1954 which was in turn based upon the conclusions of the Commission on Foreign Economic Policy, but they were not arrived at by any pattern-mindedness. The subject was reopened in every aspect in an endeavor to find weaknesses in that program or important additions to it, but the end of the process has come to substantially the same result.

That there is serious distortion in the world economy is clear, and that the United States should do something about it is equally clear. We are impelled to that viewpoint by the short-term consideration of security, which requires economic strength among our allies, by humanitarian impulses of improving the lot of the underprivileged in the world, but most especially by the long-term consideration that an increasing volume of world production and trade is the best possible assurance for a rising standard of living for our own people.

This program seeks to mitigate the distortions in the world economy by the release of normal forces within the framework of free enterprise and competitive markets, and is the antithesis of global spending. We have ahead of us the best opportunity that has occurred in a generation to move the United States intelligently toward a more liberal trade position.

The whole approach to the subject should be non-partisan, and it is extremely important that foreign economic policy be the first subject taken up in the new Congress. It would seem imperative that a strong note on this subject be sounded in the State of the Union Message, and that in the matter of just a few days thereaf-

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[1] Distributed to members of the Cabinet as a Cabinet Paper, designated CP–4, under cover of a memorandum by Secretary to the Cabinet Maxwell M. Rabb, dated Dec. 8, 1954, not printed.

ter a special message be sent to the Congress outlining the specific legislative proposals.

The program recommended is now outlined step by step:

Tariffs

The Kean Bill should be reintroduced. It provides:

1. That the President shall have the power by multilateral negotiations to reduce tariffs on selected commodities by 5 percent per year for three years.
2. That where tariffs exceed 50 percent, they may be reduced through multilateral negotiations to that limit over the three-year period.
3. That where no substantial amount of the commodity is imported, the tariff may be reduced over the three-year period to 50 percent of the rate existing on January 1, 1945, with or without receiving reciprocal concessions.

The present escape and peril point provisions would be preserved.

The hearings on the Kean Bill, which should open the first week in January, should be supported by the marshalling of the largest, most impressive number of witnesses that can be gotten together.

Customs Simplification

1. The Jenkins Bill, revised, should be reintroduced to make intelligent standards for the valuation of imports.
2. The President should say that he is awaiting with interest the report of the Tariff Commission on simplification of the classification of imports for which the Customs Simplification Act of 1954 provided. A preliminary report is due by March 1st. Further recommendations for legislation may follow receipt of this report.

Investments Abroad

The whole world needs capital, and America is its largest source. It is important that the flow of capital abroad from our country be stimulated and under such auspices that it reach private hands as distinguished from government-to-government.

1. The proposed new International Finance Corporation, which will be a medium for providing capital to private enterprise, should receive full Administration support.
2. The proposal that an incentive to cause private American capital to go abroad might be created by a fourteen-percentage-point tax credit on income earned from such foreign investments should be revised to meet the criticisms in the last session and reintroduced in Congress.
3. Further study should be given to find new ways to enlarge the outward flow of capital.

4. The Executive Branch should continue to insist that our diplomatic representatives abroad use every effort to strengthen the private enterprise concept in investment as well as in other economic activity.

Technical Assistance

The Administration should continue to support the principle of technical assistance to underdeveloped countries, meaning by this, "know-how" and not capital. An immediate effort should be made in the new Congress to restore the funds required to support the multilateral technical assistance programs of the United Nations. The bilateral programs of the United States should be pressed vigorously.

Travel

The Frelinghuysen Bill to increase the customs exemption for the incoming tourist from $500 to $1,000 should be reintroduced in the Congress. The amount of money involved here is not large, but the psychological effect would be important in Europe.

Subsidies

The President should again restate the principle that, in his judgment, all costs required for our security should be directly borne to the greatest possible extent and express his disapproval for this purpose of disguised subsidies to American business.

Agriculture

The President should once more make it clear that the necessities of our agricultural program and of our foreign economic policy must be harmonized. We cannot suspend natural economic laws in the field of agriculture without having that cause distortion in our foreign trade.

GATT

A medium for multilateral negotiation with other countries in the field of trade is absolutely indispensable to an intelligent foreign economic policy. Without that, an extension of the Trade Agreements Act for three years with an intention to reduce tariffs gradually would be meaningless. The Administration should therefore give its full support in the presentation of the renegotiated GATT to the Congress.[2]

Convertibility

Convertibility of exchange, which is so urgently required for the development of a steadily rising volume of world trade, cannot be

[2] The GATT was renegotiated at the Ninth Session of the Contracting Parties; for additional documentation, see pp. 114 ff.

achieved until the present imbalance in international trade and payments has been corrected. No gold reserves in other countries will stand against the drain if their international payments as a whole are not in balance. That is why the foreign economic program proposed herein would make an important contribution to convertibility.

Japan

The economic plight of Japan is desperate. Unless she can find a way to live, she may be driven into the camp of the enemy. This problem should be solved through multilateral agreement among the free nations, by which each will do its part in opening sufficient markets to Japan to help her to earn her way. The President should fully support that concept.

Organization for the Development and Coordination of Foreign Economic Policy

The proposals on organization recommended to the President by Mr. Joseph Dodge in conjunction with the Advisory Committee on Government Organization and the Director of the Bureau of the Budget are heartily endorsed. Steps taken to improve the development and coordination of foreign economic policy within the Executive Branch would be a significant adjunct to this program.

Public Relations

In terms of public relations, it is important that the President early make clear to our people the essentials of his program for the coming year, and it is equally important that from time to time he re-emphasize the objectives and the steps to be taken.

Buy American

It is important that the Buy American Order[3] be cleared at the Cabinet level as soon as possible and be made public.

CLARENCE B. RANDALL

[3] Reference is to a draft of Executive Order 10582 issued on Dec. 17, 1954, which prescribed uniform procedures for certain determinations under the Buy American Act; for text of the Executive Order, see 19 *Federal Register* 8723.

Eisenhower Library, Eisenhower papers, Whitman file

Minutes of a Cabinet Meeting, Held at the White House, 9:05 a. m., December 10, 1954[1]

CONFIDENTIAL

The following were present:

[1] Prepared by Minnich.

The President

Vice President Nixon
Sec. Dulles
Sec. Humphrey
Deputy Sec. Robert Anderson (for Sec. Wilson)
Asst. Attorney General J. Lee Rankin (for Mr. Brownell)
Mr. Summerfield
Sec. McKay
Under Sec. True D. Morse (for Sec. Benson)
Under Sec. Robert Murray (for Sec. Weeks)
Sec. Mitchell
Sec. Hobby, and Under Sec. Nelson Rockefeller

Director Hughes
Gov. Stassen
Dr. Flemming
Chairman Young
Dr. Burns

Mr. Clarence Randall, in part
Hon. Albert M. Cole, HHFA, and two assistants, in part
Hon. Roswell Perkins, HEW, and assistants, in part
Hon. Allen Dulles, CIA, in part

Adm. Strauss, AEC, in part
Dr. Scoville, in part

Gov. Adams
Mr. Shanley
Gen. Cutler
Dr. Hauge
Mr. Harlow
Mr. Morgan
Mr. Martin

Mr. Rabb
Mr. Minnich

Secretary Humphrey presented to the President the traditional "Presidential Medal" made by the Treasury Department for each President. He promised that the Treasury would provide each Cabinet member with a replica.

Foreign Economic Policy (CP–4 [2] *and CP–5* [3])—Dr. Randall presented the proposed Executive Order regarding the Buy American Act with a statement that the formula developed at Cabinet last July had been cleared at staff level in the departments and agencies. He stressed the psychological need for adopting it in the very near future. The Director of the Budget called attention to Section 3 (a) which had been inserted for legal reasons by the Attorney General as an "escape clause". He hoped it would be understood that Cabinet members would not ride off on separate tangents under the authority of this clause, but would instead discuss thoroughly with other interested officials any major exceptions to policy which they proposed to make under it. When asked by the President if the clause would vitiate the effect of the Order, Mr.

[2] *Supra.*

[3] The reference Cabinet Paper, designated CP–5, containing a draft of Executive Order 10852, is not printed.

Randall replied in the negative. Mr. Rankin explained that the clause was deemed necessary because of the existence of the basic Buy American Act and the constitutional delegation to Congress of control over foreign commerce. Sec. Dulles cited the opposite delegation of authority to the President over his Cabinet. Mr. Randall believed the draft effected a good balance between these delegations of authority.

The President suggested inserting the words "of urgent national interest" after "reasons" in the escape clause. Mr. Randall and Mr. Rankin agreed that such would be possible, although Mr. Randall expressed a doubt that it might limit the freedom of department heads to reject a bid because of other reasons such as the irresponsibility of the bidder. Mr. Rankin saw no danger in this because such cases were covered elsewhere in the Order.

Mr. Hughes reiterated the need for understanding that thorough discussion would be arranged for any major exception proposed under Section 3 (a), a matter which should appear in the Record of Action. The President stated his complete agreement.

Mr. Randall briefed his paper on the legislative program concerning foreign economic policy as constituting those parts of the program recommended to Congress last March but not yet achieved. He added his hope that emphasis would be placed on this program in the State of the Union Message [4] and the special message [5] to follow, and that it would be given top priority on the Congressional agenda subject only to priority for Treasury needs in regard to excise matters. He indicated that Committee hearings would be top level in quality and he pointed to the extensive growth in sentiment during the past year in favor of these proposals. In running over allied items, he stressed the program for incentives for the flow of investment in foreign lands, the reciprocal 5-year exemption proposal, the International Finance Corporation proposal, continued technical assistance both direct and through the United Nations, the implementation of the Geneva GATT Conference, revision of customs procedures, and finally the Japanese economic program.

The President asked as to the desirability of attempting in the State of the Union Message to paint a picture of the wonderful world which could be had by a free flow of capital. Mr. Randall and Sec. Dulles agreed that it would be desirable.

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[4] Reference is to the President's Annual Message to the Congress on the State of the Union, delivered before a joint session on Jan. 6, 1955; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1955*, pp. 7–29.

[5] Reference is to the President's Special Message to the Congress on the Foreign Economic Policy of the United States, delivered on Jan. 10, 1955; for text, see *ibid.*, pp. 32–40.

The Vice President questioned and was reassured that this program would be on the agenda of both legislative meetings next Monday and Tuesday.[6] Mr. Stassen added a comment on the unrecognized strength of public opinion in favor of this program, and Mr. Dulles commented on the lack of organization among exporters who stood to benefit considerably from this program.

[Here follows discussion of other legislative programs and the defense mobilization question.]

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[6] The reference bipartisan legislative leadership meetings took place on Dec. 13 and 14, 1954. For extracts of the notes of the Dec. 13 meeting, see pp. 217 and 809; extracts of the notes of the Dec. 14 meeting are printed *infra* and p. 811.

Eisenhower Library, Eisenhower papers, Whitman file

Notes on the Legislative Leadership Meeting, Held at the White House, 8:30 a. m., December 14, 1954

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon
Sen. Knowland
Sen. Bridges
Sen. Millikin
Sen. Saltonstall
Sen. Ferguson
Sen. Wiley
Speaker Martin
Rep. Halleck
Rep. Arends
Rep. Leo. Allen
Rep. Chiperfield
Rep. Taber
Rep. Dewey Short
Sec. Dulles
Asst. Sec. Thruston Morton, State
Sec. Humphrey
Sec. Wilson, and Asst. Secs. Seaton, Burgess, McNeil, Struve Hensel
Gov. Stassen, FOA

Sen. Lyndon Johnson
Sen. Clements
Sen. Hayden
Sen. Russell
Sen. George
Rep. Sam Rayburn
Rep. McCormack
Rep. Cannon
Rep. James P. Richards
Rep. Carl Vinson
Gov. Adams
Gen. Persons
Mr. Shanley
Mr. Hagerty
Mr. Snyder
Mr. Harlow
Mr. Morgan
Mr. Jack Martin
Mr. Gruenther
Gen. Goodpaster
Mr. Milton Eisenhower

Director Hughes and Mr. Brundage	Dr. Hauge Mr. Randall Mr. Minnich

The President opened the meeting with a brief outline of the topics scheduled for discussion but made it clear that the Leaders could appropriately raise other items if they wished. He was hopeful of developing a meeting of the minds.

[Here follows discussion of the Administration's budget and United States foreign relations.]

Foreign Trade Program—Mr. Randall stressed the need for the several items in this package (more than just tariff) in order to extend trade and thus help our allies to develop "an earned strength" for their economies and also to improve the long range welfare of the US economy by expanding world markets. He felt it was necessary either to find the way for the world to buy US products from earnings or to suffer a reduction of US exports.

Mr. Randall stated that the proposal was essentially the same as that of March, 1954, except for the addition of the International Finance Corporation as a result of the Rio Conference. It would help the flow of capital to private entrepreneurs rather than to governments.

Mr. Randall concluded his remarks by stressing the importance of Japan in the US security picture and the need for solving its critical trade problems.

Mr. Rayburn asked if it were not vital to get rid of trade barriers and Mr. Randall responded affirmatively. Sen. Johnson thought that there was much support for this program in the Congress and that it was high time to get started on it. He asked if the Administration intended to drive forward with the program this year. The President responded that there had been many questions last year as to the program, so that a one-year extension had been obtained while further study was accomplished. The President believed that the current proposal was the best program that could possibly be devised by the Administration and that it was very vital for us to do the things necessary to enable our allies to develop their own economies in a way that could support the military programs we urged upon them. Sen. Johnson asked if the President intended to urge the Congress to act on this. The President replied affirmatively.

Sen. Wiley felt that there was general agreement with the philosophy of the Randall program but he wanted to point out that only 3% of US business is in exports. He noted a number of other reasons for giving priority attention to the continuing strength of

the American economy. Rep. Halleck expressed his own support for the program and the need for full explanation of its content so as to encourage popular and Congressional support. Mr. Rayburn believed the program might be placed first on the House agenda.

Rep. Taber thought the fundamental matter was to educate people to produce things they could themselves use rather than having to rely on foreign trade. Mr. Randall set forth some statistics on the importance of our agricultural and heavy machinery exports, which must be paid for somehow by the countries that purchase them. Mr. Halleck ascertained that the peril point and escape clauses remained in the bill. Sen. Knowland inquired whether Mr. Randall would be able to give the Congress full information about the restrictive actions of other countries.

[Here follows discussion of national defense and mutual security matters. For text of the section on mutual security, see page 812.]

UNITED STATES INTERNATIONAL TRADE AND COMMERCIAL POLICY [1]

394.31/1-752: Telegram

The Secretary of State to the Embassy in the United Kingdom [2]

SECRET WASHINGTON, January 11, 1952—11:39 a. m.

3285. For Batt [3] from Thorp.

1. Questions raised by urtel 2994 Jan 7 [4] are so general it is difficult reply adequately by cable. Will be glad supplement brief comments below by more info on any specific issue.

2. For short run, US policy clear. We will try maintain GATT as vigorous, effective mechanism. Among other things, we will continue support use of GATT as organ for settlement international trade disputes, will support meaningful review of discriminatory QR's next spring as provided in GATT, and will continue encourage use of intersessional machinery to augment GATT's effectiveness. At home, we will push vigorously for measures necessary to maintain present trade policy, including repeal cheese import restrictions and passage Customs Simplification Act.

3. For longer run, difficult state US policy with same preciseness. Present provisional application GATT principles unsatisfactory not alone to US but to other countries as well. Obvious we must find some means achieve greater stability and continuity of policy, greater harmony between legislative action and executive policy than now exists. Cannot expect make much progress on these

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[1] For previous documentation concerning this subject, see *Foreign Relations*, 1951, vol. I, pp. 1225 ff.

[2] Drafted by Deputy Director of the Office of Economic and Trade Policy Vernon and cleared by Assistant Secretary for Economic Affairs Thorp.

[3] William L. Batt, Chief of the Mutual Security Agency Mission in the United Kingdom. The Agency assumed the function of the Economic Cooperation Administration on Dec. 30, 1951.

[4] In telegram 2994 from London, Batt reported that in his discussions with British officials he needed to have a clearer understanding of U.S. trade policy matters, particularly the U.S. Government's future intentions with respect to the General Agreement for Tariffs and Trade (GATT). (394.31/1-752)

The General Agreement was signed at Geneva, Oct. 30, 1947, and entered into force for the United States Jan. 1, 1948; for text, see 61 Stat. (pts. 5 and 6). For documentation surrounding the events leading to the Agreement, see *Foreign Relations*, 1947, vol. I, pp. 909–1025.

longer-run objectives in months just ahead, but clearly must move in that direction before very long.

4. Hope to define longer-run objectives more clearly in early future and will keep you informed.

ACHESON

394.31/8-2052

Memorandum by the Chairman of the Interdepartmental Committee on Trade Agreements (Corse) to the President [1]

CONFIDENTIAL [WASHINGTON,] August 20, 1952.

Subject: Recommendation of the Interdepartmental Committee on Trade Agreements [2] concerning Trade Agreement Negotiations with Japan

Japan has formally notified the Contracting Parties that it wishes to accede to the General Agreement on Tariffs and Trade and in this connection to enter into tariff negotiations with the United States and 27 other contracting parties. Although August 19 was the final date for making a reply, the Secretariat has been informed that our reply would be forthcoming shortly. Under a special procedure, Japan's application is automatically accepted unless three contracting parties request that it be referred to the next session of the Contracting Parties. It is likely that at least three contracting parties will request referral of Japan's application to the Seventh Session which will meet on October 2, 1952.

The Interdepartmental Committee on Trade Agreements requests the President's approval of the following:

The United States should reply that it has no objection to Japan's accession to the General Agreement, that it is prepared to enter into tariff negotiations with Japan subject to domestic legislative and constitutional requirements, and that it has no objection to full discussion of the question at the Seventh Session of the Contracting Parties. At the Seventh Session the United States delegation should support favorable action by the Contracting Parties on

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[1] Drafted by Nan G. Amstutz and David I. Ferber of the Commercial Policy Staff, Bureau of Economic Affairs, and forwarded to the President under cover of a memorandum by Acting Secretary of State Bruce, dated Aug. 20, 1952, not printed, in which the Acting Secretary endorsed the Committee's recommendation and recommended that the President approve it. (394.31/8-2052)

[2] The Interdepartmental Committee on Trade Agreements, also commonly referred to as the Trade Agreements Committee (TAC), included representatives from the Departments of State, Agriculture, Commerce, Interior, Labor, Defense, and Treasury, the Mutual Security Administration, and the Tariff Commission. The Committee was established on June 23, 1934, to make recommendations to the President of the United States relative to the conclusion of trade agreements.

Japan's application. However, the United States delegation should not press the application to the point of incurring the risk of outright rejection or of straining our relations with other countries so as to prejudice the attainment of our broad policy objectives.

For several years it has been a basic principle of the United States to further the development of a strong and stable economy in Japan and to strengthen Japan's economic ties with the free world. Repeated, although unsuccessful, efforts have been made to obtain commitments from other major trading countries to accord most-favored-nation treatment to Japan, and in 1949 an effort was made to have Japan invited to participate in tariff negotiations conducted within the framework of the General Agreement.

There is bi-partisan recognition in this country that Japan must increase its trade with the United States and the rest of the free world. Japan's over-all foreign trade is at present only about half of what it was before the war while its population has continued to increase. Trade with China, which accounted for over 15% of Japan's foreign trade before the war, has recently dropped to less than 1%. Japan has been forced to secure more of its essential imports from the United States, both because of the reduction in imports from China and because other Far Eastern areas have not regained their pre-war importance as exporters of raw materials. This has made it difficult for Japan to balance its dollar trade. Japan is presently able to finance a $500,000,000 trade deficit only because of a temporary windfall resulting from the hostilities in Korea and from the stationing of United States troops in Japan. The Committee believes that the conclusion of trade agreements, bringing Japan back into the trading community of the free world, is one of the prime essentials in helping Japan in its necessary efforts to achieve a self-supporting economy.

The prospects of lucrative trade with the Soviet bloc, including Communist China, have a strong appeal to the Japanese trading community. The Japanese Government has recognized that its trade with the Soviet bloc must for the time being be strictly controlled in the interest of our mutual strength and security. However, if the Japanese are blocked in their efforts to expand their trade with the free world, they may think it necessary to re-orient their trade toward Communist China and the Soviet bloc.

The Committee believes there is no real alternative to supporting the Japanese application and agreeing to enter into tariff negotiations with Japan. Such action would in fact be consistent with and give effect to policy recently approved by the National Security Council. Any other course would certainly be misunderstood. The Japanese could reasonably feel that the United States was repudiating its former support and that actually we were unwilling to

enter into trade negotiations with Japan. Furthermore, anything less than affirmative support would be taken by other countries as an abnegation of our commercial policy of reducing trade barriers and as a weakening in our efforts to obtain the economic objectives we desire. Elements already opposed to Japan's accession would be strengthened and our future efforts on Japan's behalf would operate under a severe handicap.

The United Kingdom, joined by Australia, is likely to continue its long-standing opposition to Japan's accession to the General Agreement. The primary British concern relates to the depressed Lancashire cotton-textile industry. The Committee recognizes that, because of the important implications of the problem of integrating Japan into the free-world community, it may be necessary to have high-level discussion of the question with the British at some stage.

In making its recommendation the Committee has recognized that it will raise serious domestic problems. Our efforts to obtain favorable action on Japan's application will undoubtedly be known publicly. Since most of the principal commodities which the United States imports from Japan are sensitive products, such as tuna fish, canned crabmeat, chinaware, cotton textiles and toys, there will undoubtedly be many cries of fear at the prospect of increased competition from Japan. Attempts may be made to justify these fears on grounds of unfair Japanese competition due to low labor standards. Such reactions to the prospect of tariff negotiations with Japan will be of special significance in view of the fact that the Trade Agreements Act will be up for renewal in the spring of 1953.

For the reasons outlined above the Interdepartmental Committee on Trade Agreements believes that, despite the difficulties which will arise, the United States should support Japan's application and recommends that the United States indicate its willingness to enter into tariff negotiations with Japan in connection with Japan's accession to the General Agreement. If the President agrees with this recommendation, the Committee will at the appropriate time request the President to approve a formal public notice of intention to negotiate a trade agreement with Japan and a list of articles on which possible concessions by the United States will be considered in the negotiations.[3]

CARL D. CORSE

[3] President Truman approved the recommendation on Aug. 22, 1952. (394.31/8-2052)

394.31/9-2552

Memorandum by the Director of the Office of Northeast Asian Affairs (Young) to the Assistant Secretary of State for Far Eastern Affairs (Allison) [1]

CONFIDENTIAL [WASHINGTON,] September 25, 1952.

Subject: Japan's Application for Accession to the GATT.

Believing it essential to take the step for domestic political reasons, the Japanese Government in July made formal application for an invitation to negotiate for accession to the GATT. The question of Japan's application has been placed on the agenda of the Seventh Session of the Contracting Parties to the GATT which convenes at Geneva on October 2.

The interdepartmental Trade Agreements Committee has recommended that the United States delegation to the Seventh Session should support favorable action on the Japanese application, but that it should not press the application to the point of incurring the risk of outright rejection or of straining our relations with other countries so as to prejudice the attainment of our broad policy objectives. This restraining clause was added largely because of the known opposition of the British Commonwealth countries and the inadvisability of our pressing the United Kingdom on an issue which poses some difficulty for us in view of the forthcoming Presidential election and Congressional consideration.

Somewhat, to our surprise, it now appears that enough favorable votes may be available at Geneva to obtain an invitation for Japan. This would be a pyrrhic victory, however, unless the British Commonwealth countries were included among those agreeing to invite Japan.

On September 22, representatives of the British Embassy presented an *aide-mémoire* to Mr. Thorp stating that the Japanese application presented the "most acute difficulties" for Her Majesty's Government and suggesting that, instead of deciding the issue at the Seventh Session, the Contracting Parties should adopt a resolution which would defer the decision.[2] Mr. Thorp told the British representatives that in his opinion it should be possible to draft a resolution, acceptable to both the United States and the United Kingdom, under which an Intersessional Committee would make a detailed examination of the matters involved in bringing Japan into the GATT and report on them to the Contracting Parties. Rep-

[1] Drafted by Selma G. Kallis of the Office of Northeast Asian Affairs.

[2] Copies of both the British *aide-mémoire* and the memorandum of conversation of the Sept. 22 meeting are appended to the source text but not printed. (394.31/9-2552)

resentatives of the Department and the British Embassy are currently endeavoring to work out a mutually acceptable draft.

The broad language of the TAC recommendation leaves considerable leeway to the United States delegation to the Seventh Session. Moreover, our commitment to the Japanese is limited to an assurance that our delegation will be instructed to favor postponement of consideration of the Japanese application or some other feasible alternative and to oppose outright rejection.

The general view in the Department is, however, that we should endeavor to achieve a result which would make it possible for tariff negotiations between Japan and the Contracting Parties, including the United States, to be undertaken as soon as feasible in view of our legislative and procedural considerations; namely, by late 1953.

I am attaching a copy of a memorandum of Mr. Thorp's conversation with the British and a copy of the *aide-mémoire*. You will note that the *aide-mémoire* makes clear the nature of the British difficulties—the Government's commitments to the British public that under present circumstances they cannot bind themselves to grant *de jure* MFN treatment to Japan, criticism in the press and in Parliament of British adherence to GATT, and the forthcoming Conference of Commonwealth Prime Ministers, which can be expected to include commercial policy in its discussions.

I anticipate that there will be interesting developments in this matter within the next few weeks. I intend to keep our Embassy at Tokyo currently informed for their own interest and in order that the latest information will be available to you when you reach Tokyo toward the end of your trip.

Editorial Note

The Seventh Session of the Contracting Parties to the General Agreement on Tariffs and Trade convened in Geneva, Switzerland, on October 2, 1952, and remained in session until November 10, 1952. In a memorandum dated September 29, 1952, Harold G. Kissick, Acting Assistant Chief of the Division of International Conferences, indicated that the principal items of importance on the agenda of the session were: (1) discussion among the Contracting Parties of discriminatory import restrictions applied for balance-of-payments reasons, (2) Japan's application for membership in the GATT, and (3) the question of granting a waiver to six European governments enabling them to participate in the Schuman Plan consistent with their obligations under the GATT. Assistant Secretary Thorp was chairman of the United States Delegation; Deputy Director of the Office of Economic Defense and Trade Policy

Vernon was vice chairman. For a complete listing of the United States members, see the Department of State *Bulletin*, October 13, 1952, page 582.

Current Economic Developments, lot 70 D 467

Current Economic Developments [1]

RESTRICTED WASHINGTON, November 10, 1952.
Issue No. 382

GATT Contracting Parties Conclude Seventh Session [2]

The Seventh Session of the Contracting Parties to the General Agreement on Tariffs and Trade which concluded in Geneva on November 10 was marked by the successful handling of a number of complaints of violation of the agreement or impairment of rights under the agreement. (See page 1, September 29, 1952 issue.) Of particular interest to the US in this area were the provisional settlement of the US complaint against restrictions imposed by Belgium on dollar imports and the authorization to the Netherlands to reduce its imports of wheat flour from the US in retaliation for restrictions on imports of Dutch dairy products imposed by the US under Section 104 of the Defense Production Act.[3] Two other complaints entered against the US by Greece and Turkey were partially solved or deferred.

Among other significant actions taken during this session were: 1) the granting of a waiver of certain obligations in the General Agreement, particularly most-favored-nation provisions, to permit the six countries participating in the European Coal-Steel Community [4] to fulfill their responsibilities under the CSC treaty without

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[1] *Current Economic Developments* was prepared as a classified twice-monthly publication by the Bureau of Economic Affairs (subsequently the Bureau of Economic and Business Affairs) of the Department of State for internal use as a background and policy guidance report for policy level officers of the United States Government serving at home and abroad. It was instituted in 1945 and terminated as a separate publication in October 1974.

[2] The texts of many of the GATT resolutions, declarations, decisions, and rulings mentioned in the following summary can be found in *Basic Instruments and Selected Documents, First Supplement*, issued by the Contracting Parties to the General Agreement on Tariffs and Trade, March 1953.

[3] Reference is to the Defense Production Act of 1950 (Public Law 774), first enacted Sept. 8, 1950, and amended July 31, 1951 (Public Law 96) and June 30, 1952 (Public Law 429); for texts, see 64 Stat. 798, 65 Stat. 132, and 66 Stat. 297. A brief discussion of Section 104 is included in the memorandum from Metzger to Tate, dated Feb. 25, 1953, p. 138.

[4] The European Coal and Steel Community was established by representatives of Germany, France, Italy, Holland, Belgium, and Luxembourg in April 1951, and became operative Aug. 10, 1952. Within the Community all trade barriers on coal

Continued

violating the GATT; 2) consultations with a number of countries on import restrictions imposed for balance-of-payments reasons; 3) action on the Japanese application for accession to the agreement; and 4) approval of the text of an international convention to facilitate the importation of commercial samples and advertising matter and of a code of standards to reduce documentary requirements for the importation of goods. The intersessional machinery which was established on a provisional basis at the sixth session was extended and strengthened for the period between this session and the next, which is scheduled to be held the middle of September 1953. During discussion of the functions of the intersessional committee, the question of re-examination of the General Agreement was raised. The chairman pointed out that if such a study is needed, the Contracting Parties themselves would have to initiate it, possibly through a special session.

Belgian Import Restrictions. During the last meeting of the Contracting Parties, the US and Canada expressed concern over action taken by the Belgo-Luxembourg Economic Union[5] to restrict importation of goods from the dollar area, as one of the measures it had adopted to reduce its extension of credits to the countries in the European Payments Union.[6] Early in 1952, the US filed a formal complaint that these restrictions were damaging US trade and constituted a departure from GATT obligations. At the seventh session, Belgium announced its intention to return to a regime free of quantitative restrictions and within the next two or three months, as the first step, would liberalize significantly its dollar import restrictions. The US and Canadian delegations expressed their satisfaction with the Belgian proposal and agreed there was no need for further consideration pending announcement of details of the Belgian proposals. The discussion of this problem spread to the broader problem of the conflict between EPU and GATT objectives, with the French stating that the solution proposed by Belgium might have repercussions on other countries having dollar problems and on the efficient operation of the EPU. Our representative explained the US position on EPU. He stressed the present importance of EPU, and the contribution it could make to

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and steel exports between the six countries were removed and their coal and steel industries placed under supranational control. For documentation, see volume VI.

[5] The Belgium-Luxembourg Economic Union, first concluded in 1921 and dissolved in 1940, was reestablished in May 1945.

[6] The European Payments Union (EPU) was established July 1, 1950, as a vehicle for expanding intra-European trade on a nondiscriminatory basis. It included all Western European nations except Spain and provided a mechanism for achieving currency convertibility and for easing short-term balance-of-payments difficulties among its members. For documentation regarding U.S. policy toward the EPU, see *Foreign Relations*, 1950, vol. III, pp. 611 ff.

ultimate convertibility, but pointed out that it is regarded in its present form as a transitional arrangement. He also pointed out that the US recognized the risk that, unless carefully managed, such an organization might lead to new preferential arrangements. In summarizing the situation, the chairman stated that the problem of reconciling the objectives of GATT and another organization such as the EPU was difficult and suggested that the eventual solution might be a GATT waiver.

US Dairy Products Restrictions. At this session, a number of countries exporting dairy products again claimed to be adversely affected by restrictions on imports of dairy products applied by the US under Section 104 of the Defense Production Act and asked that the Contracting Parties recognize their right to take compensatory action. It was the consensus that the US was still infringing the General Agreement and that although the exporting countries could rightfully claim impairment, it would be preferable for the US to lift the restrictions and thus avoid compensatory measures. A resolution was adopted urging the US to continue efforts to repeal Section 104. Of the countries claiming injury, only the Netherlands was prepared at this session to specify items it might wish to withdraw as compensation for its reduced exports of dairy products to the US. The Contracting Parties authorized the Netherlands to reduce its imports of wheat flour from the US by 12,000 tons in 1953 as compensation. In case other countries feel it is necessary to take compensatory action it might be necessary to convene a special session to deal with the specific proposals. At the last moment the New Zealand delegate received authorization to request approval of the withdrawal of certain specific items. It notified its government that the instructions had arrived too late for implementation at the regular session.

Other Complaints Against US. Turkey and Greece indicated that they were seriously injured by "escape clause" action taken by the US last summer which resulted in an increase in the duty on dried figs above the levels incorporated in the US schedule in GATT. The US delegation continued consultations which had been begun in Washington with these countries. In the case of Turkey, agreement was reached on a series of provisional withdrawals permitting Turkey to increase duties on certain US products entering Turkey. The Greek delegation felt there was no advantage to be obtained in withdrawals it might make and asked the US to consider additional concessions to offset the loss of the dried fig concession. A study of trade between the two countries will be made before the next GATT session to see if it is possible to find additional items on which the US might grant concessions. Our delegation stated it was the intention of the US, as expressed by the President when he

announced the fig duty increase,[7] to re-examine the need for this increase before the next fig marketing season or sooner if circumstances justify.

Greece, supported by Turkey, also declared itself injured by the US export subsidy on raisins. The US delegation expressed willingness to consult but pointed out that the subsidy had been designed to maintain the traditional US export market for the product and had not increased US trade or expanded US production. Consultations were begun but, because of the limited data available and the complicated nature of the problem, it was not possible to conclude them.

Other Complaints. The Contracting Parties considered the UK complaint concerning the increase in tariff rates imposed by the Greek Government on a number of commodities through the upward revision of previously agreed upon factors used in calculating import duties. It was agreed this is a violation of the General Agreement and the Greeks undertook to eliminate the violation by July 1. Another complaint was made against the "contribution tax" imposed by Greece on imported goods. The Contracting Parties were unable to determine whether this levy should be considered an exchange measure, a customs duty, or an internal tax and decided to seek advice from the IMF on the exchange aspect of the problem before making a decision.

With respect to Norway's complaint concerning the discriminatory treatment by Germany of Norwegian-type sardines, Germany was requested to consider ways of removing the inequality of treatment accorded this product, to consult with Norway and to report back at the eighth session. The Contracting Parties again considered Norwegian and Danish claims that they are being discriminated against by Belgium's application of a tax on their products imported for use by the central, provincial or municipal governments. The tax is not applied to products of other Contracting Parties which have been determined to have a system of welfare taxes equivalent to the Belgian "allocation familiale", a tax to provide allowances to workers families. The Contracting Parties urged the Belgian Government to remove the discrimination.

Another complaint which was disposed of at this meeting was the UK purchase tax, long objected to because of its discriminatory effect on certain imported goods as compared to domestic goods.

[7] The text of President Truman's proclamation on dried figs is printed in the Department of State *Bulletin*, Sept. 1, 1952, pp. 337-338.

The UK delegation announced that the discriminatory aspects of the tax had been eliminated. No progress was made in eliminating discrimination in certain Brazilian internal taxes, but the Brazilian delegate expressed the hope that the discrimination would be removed before the next GATT session. India's complaint against Pakistan's export tax on jute was discussed bilaterally.

Coal-Steel Community Waiver. The Contracting Parties agreed to waive provisions of the General Agreement to the extent necessary to permit France, Italy, the German Federal Republic, the Netherlands, Belgium and Luxembourg to fulfill their treaty obligations as members of the European Coal and Steel Community. In general, so far as coal and steel products are concerned, the GATT rights and obligations of the CSC governments, whether acting singly or as the community, are hereafter to be the same as though they were a single Contracting Party whose customs territory included European territories of the member states. Provisions were made for working relationships between the Contracting Parties and the High Authority of the community. Although the US had hoped that a so-called general waiver would be granted to the six countries, our delegation believes that the specific waivers that were agreed upon will have the same result.

Balance-of-Payments Consultations. The Contracting Parties conducted consultations with seven countries—Italy, the Netherlands, France, Pakistan, Australia, Ceylon and the UK—on import restrictions which they apply for the purpose of safeguarding their balance of payments and monetary reserves. They discussed in considerable detail the financial basis for and the method of administration of the consulting countries' import restrictions. The discussions covered a variety of specific commodities which illustrated the problems facing countries imposing restrictions, as well as the difficulties created for exporting countries. As in the case of previous consultations, these were characterized by full and frank discussion and free exchange of opinions. There was also full consultation with representatives of the International Monetary Fund as provided for in the General Agreement. Representatives of all of the consulting governments indicated that the views expressed by the Contracting Parties in the consultations would be conveyed to their governments for consideration. Arrangements were made for the Contracting Parties to carry out similar consultations at a future convenient time with Brazil, Chile, Finland, New Zealand, Southern Rhodesia, Sweden and the Union of South Africa.

Japanese Accession. At this session, the Contracting Parties considered Japan's application to negotiate for accession to GATT and approved a resolution recognizing that Japan should take its rightful place in the community of trading nations and to that end

should be admitted to appropriate international arrangements. An intersessional committee is to consider the question of conditions and timing under which Japan's application could be pursued. During the seventh session this committee held two meetings with the Japanese on their foreign trade, unfair trade practices legislation, patents and trade marks, exchange controls, commercial policy and wage and hour legislation. The committee will next meet on the Japanese application on February 2, 1953. Some contracting parties have indicated that they may enter into bilateral tariff negotiations with Japan immediately, with the intention of incorporating the results of such negotiations into later multilateral negotiations directed toward accession to the General Agreement. In view of the forthcoming renewal of the US Reciprocal Trade Agreements Act,[8] it is unlikely that the US would consider participating in tariff negotiations earlier than in a year or 18 months.

Chamber of Commerce Resolutions. In June 1951 the International Chamber of Commerce passed a series of resolutions urging governments to enter into an agreement to reduce red tape in import and export formalities. GATT action on these resolutions was begun at the sixth session. Continuing their work at this session, the Contracting Parties have now approved the text of an international convention providing for duty-free entry of samples and of certain advertising matter. The convention will be opened for signature February 1, 1953 and will enter into force when 15 states have acceded. The Contracting Parties have also agreed to review steps taken by governments to give effect to principles of valuation contained in the General Agreement and to ascertain methods of determining the nationality of goods. A code of standards was adopted on documentary requirements for importation of goods, and abolition of consular invoices and consular visas by the end of 1956 was recommended. Pending such abolition, certain standard practices in this field have been recommended to governments.

Tariffs and Tariff Negotiations. Work was continued on the plan put forward at the sixth session by the French delegation for the lowering of tariffs by 30% on a world-wide basis in three yearly stages of 10%. The extent of progress by the working party at the seventh session indicates that a great deal of work remains to be done before a specific plan will be available for consideration by the Contracting Parties. Most countries were not prepared at this time to express a view on the principles of the proposal. Study of

[8] The Trade Agreements Extension Act of 1951 (Public Law 50), enacted June 16, 1951, authorized the President to enter into foreign trade agreements until June 12, 1953. It was superseded by the Trade Agreements Extension Act of 1953 (Public Law 215), enacted Aug. 7, 1953. For texts, see 65 Stat. 72 and 67 Stat. 472.

the problem will continue intersessionally with the possibility that several plans of varying degrees of flexibility may be developed for further consideration. The Council of Europe also submitted to the Contracting Parties a recommendation concerning the adoption of a common policy for lowering tariff barriers in Europe. This proposal was dealt with separately from the French plan and a group of experts' report, which was not considered by the Contracting Parties, will be submitted to the Council of Europe.

Other Items. The Contracting Parties agreed to an extension of time, until the opening of the eighth session, for the US and Cuba to complete negotiations for the modification of certain duties. The Italian request to continue special customs treatment towards certain Libyan products was granted. Reports were heard on the operation of the Nicaragua-El Salvador free trade area and on the South Africa-Southern Rhodesia customs union. It was agreed that the date for signing the Torquay protocol [9] should be extended to December 31, 1952 for Brazil and Nicaragua and to May 21, 1953 for Korea and the Philippines. Uruguay was given until April 30, 1953 to sign both the Annecy [10] and Torquay protocols.

[Here follow unrelated articles on the United States-Korean Tungsten Agreement and the status of Soviet Lend-Lease negotiations.]

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[9] The third round of GATT tariff negotiations (following previous sessions in Geneva in 1947, and Annecy in 1949) was held in Torquay, England, Sept. 28, 1950–Apr. 21, 1951. The Torquay Protocol to the General Agreement on Tariffs and Trade, which set forth the results of the negotiations and the terms on which new Contracting Parties could accede to the Agreement, was signed by the United States on Apr. 21 and left open for signature by other countries until Oct. 20, 1950. Since by that date only 29 of the 37 countries which had negotiated at Torquay had signed, extensions were granted to the other 8 nations. The extensions referred to in the text represent further extensions of roughly one year beyond the original ones. For the text of the protocol, see 3 UST 588. For documentation on the Torquay negotiations, see *Foreign Relations*, 1951, vol. I, pp. 1245 ff. For a brief summary of the conference, see Department of State *Bulletin*, May 21, 1951, pp. 816–817.

[10] The Annecy Protocol of Terms of Accession to the General Agreement on Tariffs and Trade was the result of tariff negotiations held in Annecy, France, Apr. 11–Aug. 27, 1949, between the Contracting Parties to the GATT; for text, see 64 Stat. B139 or 4 Bevans 859. For documentation on the negotiations, including a confidential report by U.S. Delegation chairman Woodbury Willoughby, see *Foreign Relations*, 1949, vol. I, pp. 651–726. See also Willoughby's article, "The Annecy Conference on Tariffs and Trade," Department of State *Bulletin*, Nov. 21, 1949, pp. 774–778.

Editorial Note

Additional documentation on United States participation in the seventh as well as other sessions of GATT is contained in Department of State file 394.31 and also in the GATT files, lot 63 D 134.

boxes 268–270, which cover the Sixth through the Ninth Sessions, and lot 66 D 209, boxes 454–458, which relate to the Fifth through the Ninth Sessions of GATT. Documents pertaining to the decisions, declarations, resolutions, and rulings of the Seventh Session are printed in the Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents: First Supplement, 1953* (Geneva, 1953). Department of State press release 865 of November 10, 1952, summarizing the results of the Seventh Session is printed in Department of State *Bulletin,* December 1, 1952, pages 876–879. A report on the Seventh Session to the Secretary of State by the chairman of the United States Delegation is attached to the Department's circular airgram, dated Mar. 25, 1953. (394.31/3–2553)

394.31/1–1453: Telegram

The Secretary of State to the Embassy in France[1]

CONFIDENTIAL
PRIORITY

WASHINGTON, January 14, 1953—6:59 p. m.

3852. Dept Circular Airgram, December 9, Control 903.[2]

Following position US will take Intersessional Committee meeting Geneva February 2:

Japan important key US policy and strategic objectives in Far East. Basic principle our foreign policy is to further development strong and stable Japanese economy and strengthen Japan's economic ties free world. Japan's ability willingness devote its share resources to mutual defense effort will depend improvement its economic position. Objective is to obtain agreement Contracting Parties Japan may negotiate for accession basis complete equality with present Contracting Parties.

Hoped Intersessional Committee will consider all issues and submit proposal covering points which in Committee's opinion would provide acceptable basis for scheduling tariff negotiations;

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[1] Drafted by Ferber and C. Thayer White of the Office of Northeast Asian Affairs. The Department sent a similar telegram to the High Commissioner in Bonn. (Telegram 3440, Jan. 12, 1953; 394.31/12-3152)

[2] This circular airgram notified its addressees that the question of Japanese membership in the GATT would be the main topic for consideration by the Intersessional Committee on Feb. 2, 1953. Recipients of the airgram, who were all accredited to governments with representation on the Committee, were asked to provide information on the probable positions their governments would take at the meeting (394.31/12-952)

The Intersessional Committee, formally the *ad hoc* Committee on Agenda and Intersessional Business of the Contracting Parties to the General Agreement on Tariffs and Trade, was established by GATT members to address all unsettled issues left over from the formal yearly sessions.

approval such proposal by Intersessional Committee not binding on govts. Such proposal would be submitted all Contracting Parties with request they report chairman Intersessional Committee on some selected date in summer 1953 (1) whether proposal furnishes sufficient basis to expect successful Japanese accession ultimately and therefore justifies scheduling tariff negotiations and (2) whether willing negotiate with Japan. Contracting Parties chairman then decide whether fruitful call special session to schedule tariff negotiations.

US prepared explore any problems raised by other Contracting Parties view developing acceptable solutions.

Appears likely other govts will wish include labor provision. US will support introduction draft provision similar Article 7 ITO Charter [3] because might help secure support US and other countries for Japanese accession.

US will discourage introduction other contracting parties any new provisions on dumping or unfair trade practices since Japanese measures already taken appear sufficient. Document airmailed Conover [4] today recites charges Japanese unfair trade practices and comprehensive postwar Japanese measures prevent them.

In order have stronger negotiating position some contracting parties may explore techniques for increasing rates on items likely to be imported from Japan. US Delegation will generally oppose any proposal along these lines but, without indicating any way accommodation could be made this point, should try find out precisely what proposals will be made. Trade Agreements Committee will review just prior Intersessional meeting any proposals increase rates on basis information obtained consultations other countries. Criteria recommended for use that time in considering any proposals include (1) refusal agree any proposal unless adoption would lead to overall reduction barriers trade, including trade Japan (2) in principle oppose widening margin preference on any item.

Embassy authorized discuss French pertinent parts foregoing. Suggest desirability full and frank discussions with appropriate officials with statement hope France will be prepared soonest state complete details any proposals they intend make at February meeting. Dept will talk with French Embassy here but wishes focal point maintained Paris.

Please telegraph results consultations.

ACHESON

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[3] For text of the ITO Charter, see Department of State Publication 3117, *Havana Charter for an International Trade Organization and Final Act and Related Documents* (Washington, Government Printing Office, April 1948). For general documentation concerning U.S. participation in the Charter's formulation and the relationship between the Charter and the establishment of GATT, see *Foreign Relations*, 1947, vol. I, pp. 909–1025; and *ibid.*, 1948, vol. I, Part 2, pp. 802–947.

[4] Harry Conover, First Secretary of the Embassy at Paris.

394.31/1-1653: Telegram

The Ambassador in France (Dunn) to the Department of State [1]

CONFIDENTIAL PRIORITY PARIS, January 16, 1953—4 p. m.

3986. Re Deptel 3852.[2] Substance reference telegram conveyed orally to Brunet [3] (Foreign Office) with whom brief written summary left to facilitate further consideration of Department's views in Foreign Office policy conference this subject immediately following Embassy officer's visit. Brunet indicated Foreign Office position unchanged from that reported Embassy telegram 3547, December 18.[4] He said prime concern of French was with threat of increasing Japanese competition in overseas territories and particularly in Associated States. With latter French still negotiating on tariff policies and other bilateral trade matters. Brunet acknowledged while some uncertainty prevailed, it was likely ultimately Associated States would be accorded full autonomy in tariff policies and seek entry into GATT. In that event he thought it inevitable Associated States would themselves desire tariff negotiations with Japan because of natural and historical complementary commodity trade. In interim however French exporters desire as long as possible retain their privileged positions in Associated States market—a circumstance probably accounting for slow pace at which negotiations proceeding. Brunet also made reference to recent statements by Japan foreign trade authorities indicating their intention to intensify export drives including sales in North Africa which prewar were of significance.

As to direct Japanese-French trade, Brunet said French exports had never been of any importance having been under two and half billion francs in 1951. Japanese exports to France, primarily of raw materials, traditionally ran eight to nine times this volume. Hence French do not anticipate any tariff concessions by Japan would offer benefits to French exporters commensurate with reciprocal benefits to Japanese traders. Brunet referred to inertia French ex-

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[1] Repeated for information to Tokyo, Saigon, Geneva, and London.

[2] *Supra.*

[3] Jean Pierre Brunet, Director of Economic and Financial Affairs, French Ministry of Foreign Affairs.

[4] Telegram 3547 from Paris reported that a French Foreign Ministry spokesman had informed the Embassy that the prospect of Japanese competition in French overseas territories appeared too dangerous to the French export trade to permit the French Government to extend trade concessions to Japan under GATT. (394.31/12-1852)

porters and their propensity to confine sales promotion efforts to neighboring western European countries.

Brunet said Foreign Office decision likely to be to abstain in vote on Japanese accession to GATT. It is not presently contemplating suggesting any conditions for Japanese membership in intersessional committee meeting inasmuch as it can not conceive any conditions within GATT framework which would eliminate basic French concern as outlined above. Thus on labor practices, Brunet expressed view Indian conditions probably inferior to those of Japan. No thought has been given evaluation of Japanese trade practices. He anticipates despite French abstinence necessary majority will be found in GATT to make Japanese accession possible in event of which present French view is France would rely on article 35 and refrain from entering into negotiations with Japan.

Embassy officers pointed to possible unfortunate political and economic consequences this negative French position. They remarked that French abstention without accompanying stipulation of any conditions under which France might endorse Japanese accession would seem to accord Japan no criteria for guidance as to modifications in her economic and trade policy, fulfillment of which would permit her to enter western community of nations and be treated on basis of equality. On contrary such negative position would appear to imply that under no circumstances could France ever envisage Japan as an acceptable trading partner. Such implication might well have adverse effect on political relations between two countries and prejudice such economic and financial negotiations including Japanese debts as are now going on. Moreover to treat Japan as pariah excluding her in principle from equality of opportunity to trade in western world would seem likely to complicate prospects for continued Japanese adherence to COCOM[5] which France had long sought. To take position in COCOM urging Japan to refrain from trade with Soviet bloc and simultaneously in GATT to preclude expansion opportunities for trade elsewhere appeared inconsistent and possibly self-destroying set of policies.

Brunet professed to be impressed with Embassy officer's comments and offered to discuss French position again after this morning's Foreign Office policy meeting. Brunet noted complicating

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[5] The Coordinating Committee (COCOM) was established in November 1949 to oversee the day-to-day task of applying free world trade controls to the European Soviet bloc; the China Committee (CHINCOM) concentrated on controlling shipments to Asian Communist nations. Both were subordinate to the Consultative Group, a 15-nation body including the United States, Canada, Turkey, Japan, and Western Europe, which had the overall responsibility of coordinating the strategic trade controls of its members and provided a forum for discussions and negotiations relating to economic defense. For documentation on the strategic trade control program for this period, see pp. 817 ff.

factor in formulation of French position is assurance which Maurice Schumann gave to Assembly March 28, 1952 during course of debate on Japanese peace treaty: "If problem comes up, we shall take same attitude as Great Britain and the Commonwealth countries, who are hostile, for very evident reasons, to entry of Japan into GATT."

DUNN

394.31/1-2053: Telegram

The Ambassador in Japan (Murphy) to the Department of State

CONFIDENTIAL PRIORITY TOKYO, January 20, 1953—5 p. m.

2324. Embassy concerned lest GATT intersessional discussions overemphasize conditions Japanese entry designed minimize threat alleged competition and ignore basic fact Japanese foreign trade situation increasingly alarming. Trend Japanese exports downward since February 1952 as result foreign import barriers and waning demand in part because noncompetitive Japanese prices. Average monthly value merchandise exports 1952 was $104 million, compared with imports $167 million. Japanese Government projection merchandise trade current year, believed reasonably accurate, is $1,128 million exports against $1,994 imports. Trade deficit 1952 about $744 million, of which $434 million represents last six months. Exports continue dropping from 1951 levels, posing grave problem this economy.

US special procurement greatest contribution offsetting trade deficit, but this also below anticipated levels. Japanese earnings 1952 from special procurement both goods and services estimated $283 million, about two-thirds previous year. FY 1953 planned level procurement $350 million but total contracts placed first six months only $135 million.

Japanese Government and businessmen earnestly exploring every possible avenue expansion exports without apparent success. Continued fear Japanese competition by other countries and resistance to Japanese goods may force Japan again engage malpractices it presently eschews. Problem future viability this economy should in Embassy opinion receive earnest consideration GATT members although some now appear concentrate only on conditions Japanese entry. Continued opposition Japanese participation on basis equality treatment might conceivably weaken present Japanese Government advocacy fair trade principles, even affecting domestic political situation and forcing very development now feared. Example of possible harmful step is report to Foreign Office that UK

will attempt at intersessional meeting again postpone decision Japanese entry. Procrastination this type and presentation new proposals clearly aimed at Japan may have serious effect, harmful both GATT and US relations, particularly if US overly identifies itself therewith. Would not strongest US position be unconditional advocacy Japanese accession leaving to others submission qualifying amendments which in any case should have general applicability.[1]

MURPHY

[1] The Department replied in telegram 1806, Jan. 26, 1953, that contrary to the Embassy's impression the United States was urging that Japan be admitted to GATT on the basis of complete equality with present Contracting Parties. (394.31/1-2053)

International Trade files, lot 57 D 284, "Custom Bill"

Memorandum by the Deputy Director of the Office of Economic Defense and Trade Policy (Vernon) to the Assistant Secretary of State for Economic Affairs (Linder)[1]

CONFIDENTIAL [WASHINGTON,] February 6, 1953.

Subject: Customs Reform Bill

The Problem

We have been discussing with Treasury the character of the customs improvement legislation which the Administration should submit to the Congress for its consideration.

The principal issue which has arisen in our discussions is the question of how far should such legislation go. Should the legislation be a straight customs simplification measure consisting of relatively noncontroversial provisions or should it go farther and be a genuine customs improvement measure dealing with such controversial questions as the elimination of American selling price, the general simplification of our existing tariff classifications, the elimination of discriminatory internal taxes and the like?

Background

Treasury is divided on the issue. The customs people in Treasury have been pushing for a fairly limited, customs simplification bill, feeling that even such a bill would be a substantial improvement over the present situation and that any more ambitious bill would fail of passage completely, with a resulting loss of even noncontroversial reforms. Andy Overby and the people in the Office of Inter-

[1] Drafted by Leonard Weiss, Acting Assistant Chief of the Commercial Policy Staff.

national Finance in Treasury favor a stronger, customs improvement bill, feeling that the present difficulties in the field of customs administration require such a bill and that once a customs bill has been passed, it would be very difficult to come back later and obtain additional legislation even if the earlier bill were not adequate.

We have also been inclined to support a stronger bill for these reasons. As regards the feasibility of passage of such a bill, we have been impressed by the substantial sentiment among business groups and others for customs reform. We have argued that how strong a bill could be gotten through the Congress depends on the extent to which the Administration is prepared to support such an approach and that, therefore, the issue should be presented to the President and the heads of the interested agencies (notably Treasury, Commerce and State) in the form of a fairly inclusive bill. We appreciate that if a strong bill is put up to the Congress, it might be harder to get through than a weak bill. We have not felt, however, that if a strong bill should be put up to the Congress and the latter should be unreceptive to it, all would necessarily be lost as the proponents of a weak bill have tended to argue. If the Congress were not prepared to accept particular controversial provisions, it could always drop them and enact the rest. There are risks of delay and perhaps even of complete failure but they do not seem to us as great as the possible gains if the Administration were prepared to press for a strong bill.

We have tried to define in the attached paper[2] a possible minimum and maximum approach. The minimum approach would start with the Customs Bill as it passed the House last year and would add to it a number of noncontroversial items. The maximum approach would include all of the minimum approach plus provisions for the elimination of American selling price, the repeal of the three cent processing tax on coconut oil, the repeal of certain discriminatory internal revenue taxes, the granting of equal treatment for foreign and domestic seed, the modification of present requirements for the prohibition of imports from a country affected by the hoof and mouth disease and perhaps one or two other items of lesser importance. Although not discussed in our paper, the maximum bill would also include: (a) a provision for the repeal of Section 516(b) of the Tariff Act[3] allowing producers to contest duty classifications in the courts, a section which had been repealed, so far as trade agreement rates were concerned, in 1934 and restored

[2] Not printed.

[3] Reference is to the Tariff Act of 1930 (Public Law 361), enacted June 17, 1930; for text, see 46 Stat. 590.

in the last extension of the Trade Agreements Act[4] and which serves only protectionist purposes by stimulating further litigation and thereby hindering trade; and (b) some provision for simplifying our present complicated tariff structure and alleviating the problems arising from the classification of commodities for the purpose of application of duties. These last two matters had not been dealt with in our customs paper because we had thought of handling them in connection with the renewal of the Trade Agreements Act rather than in a customs improvement bill but on further reflection they would probably fall more appropriately into a customs bill than a trade act.

The classification problem perhaps deserves a further word. Our present tariff structure is exceedingly complicated with a bias towards maximizing the amount of protection accorded, and leads to delays and uncertainties and endless litigation in the courts. In the fiscal year 1952 alone nearly 30,000 cases were received in the Customs Courts; at the end of fiscal 1952 approximately 146,000 cases were pending in the courts. As the Bell report on trade policy now in draft will point out, "litigation may be regarded as an integral part of the process of final settlement of obligations on import entries".[5] This problem was not dealt with in the Customs Simplification Bill submitted to Congress by the Administration last year and as a result leaves an extremely important part, perhaps even a major part, of the problem of customs reform untouched. There is attached a paper,[6] prepared by the Department for the PAB, which more fully describes the problem and contains, on pp. 6–7, a specific suggestion for dealing with it. (I should warn you that the introductory Summary of the paper prepared by the PAB Staff is inadequate.)

Since our talk with Treasury a compromise approach for new customs legislation has been suggested to Mr. Overby by members of his staff. Under this approach the Administration would send up to Congress a minimum bill, much like the minimum bill suggested in the attached paper. At the time of submission of the bill, however, the President would indicate that the measure he is suggesting is strictly a customs simplification bill, that more is needed in the field of customs improvement, and that he is, therefore, setting up

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[4] The last extension referred to here was the Trade Agreements Extension Act of 1951.

[5] The report, entitled "A Trade and Tariff Policy in the National Interest," was submitted to President Eisenhower in February 1953, by the Public Advisory Board for Mutual Security. Daniel W. Bell, President of the American Security and Trust Company and former Under Secretary of the Treasury, was the acting chairman of the PAB, which included businessmen, labor leaders, scholars, journalists, and farm spokesmen.

[6] Not found with the source text.

an advisory committee of business men to recommend to him additional measures for legislative action.

While this approach has some merit in keeping the issue alive, we think it is far less desirable than a strong bill. We know what additional measures are needed and do not need a committee to tell us. The real issue is whether the Administration wants to take on the political fight involved in getting comprehensive customs improvement legislation. Only if the Administration decides not to seek such comprehensive legislation, would it be worth considering the compromise approach suggested to Overby.

Recommendation

Since Treasury is pushing ahead quickly to jell on the nature of a bill, we think it would be highly desirable if you could get together at the earliest possible date with Overby and Treasury's new Assistant Secretary Rose.[7] Mr. Rose, we are told, is responsible for Treasury's customs work, including the preparation of new customs legislation for submission to the Congress. In any such discussion we recommend you follow the line indicated in this memorandum.

[7] H. Chapman Rose.

411.003/2-1153

The Under Secretary of State (Smith) to the Director of the Bureau of the Budget (Dodge)[1]

SECRET [WASHINGTON,] February 12, 1953.

MY DEAR MR. DODGE: The Tariff Commission, on December 22, 1952, reported to the President its findings and recommendation based upon the result of an investigation made under Section 7 of the Trade Agreements Extension Act of 1951 with respect to imported brier pipes and bowls.[2] The investigation resulted from an application filed with the Commission on behalf of the American Smoking Pipe Manufacturers Association on December 29, 1951.

The Commission found that, partly as a result of tariff reductions, low-priced brier pipes and bowls are being imported into the United States in such increasing quantities as to cause serious injury to the domestic industry.

[1] Drafted by Margaret Potter, Chief of the Trade Agreements Branch, Commercial Policy Staff.

[2] U.S. Tariff Commission, *Tobacco Pipes of Wood: Report to the President on the Escape Clause Investigation*, 1952. For a brief summary of this tariff issue, see U.S. Tariff Commission, *Operation of the Trade Agreements Program*, Sixth Report, July 1952–June 1953, pp. 94–96.

The Commission's recommendation, which was unanimous, would increase the present tariff rates from a range of 46 to 76 percent, where they now stand, to a range of about 46 to 113 percent ad valorem.

The Department recommends that the President reject the Tariff Commission's proposal, for the reasons described below.

The country which would be most affected if the United States took this action is Italy, and the part of Italy where pipes are made is the distressed south, an area of chronic poverty already infiltrated with strong domestic Communist influences and an area where active Russian propaganda forces are at work. By a curious coincidence this part of Italy has already suffered from nearly every one of our recently imposed import restrictions—almonds, cheese and figs. This area is also the one which has suffered from United States subsidization or dumping of exports of almonds, oranges and raisins, thus underselling Italy's exports in third-country markets. Other parts of Italy were also hit by our import restrictions on furfelt hat bodies which have been in effect for about two years. In short, certain aspects of our economic foreign policy have already created a situation of weakness in our mutual security system in this area. Communist agents are certain to use this example of the unwillingness of the United States to make economic self-help a reality in Southern Italy to undermine confidence in United States leadership.

Elections are to be held in Italy later this spring. The moderate coalition government now in power was elected in 1948 by a majority of about 62 percent of the votes cast. Now, on the basis of the 1951–52 provincial elections, the bloc of center parties is expected to receive an extremely slim (51 percent) popular majority in the parliamentary elections. If this group fails to win more than 50 percent of the popular vote, the results will be extremely serious for the United States and a period of governmental paralysis and governmental instability may be anticipated.

Whether the action proposed by the Tariff Commission is important enough to warrant any additional risks in this extremely sensitive situation is therefore a major consideration and one which I strongly submit should weigh heavily against the proposal.

The issue is, however, broader than our relations with Italy and is even broader than the direct tie-in between the proposal and the success of Communist propaganda. Because this is the first case of its kind which will be decided by this Administration, there has been very widespread interest in its disposition; in fact, the action will inevitably be taken as indicative of the meaning of the President's statements on foreign trade in the Inaugural Address and in the State of the Union message. The French (who have a smaller

direct interest in pipes), the British, the Germans, the Japanese and all others who are on the lookout for signs of coming policy will be heartened or discouraged out of all proportion to the real significance of the action because of its possible future implications. Within the country, it would be very difficult to convince anyone that expansion of trade lies ahead if a marginal industry already enjoying protection far above average is able to obtain still further protection in the fact of the known international political importance of not taking the action.

The weaknesses of the economic case on which the proposal is based would make the action even more unfortunate. The pipe industry has undoubtedly suffered difficulties, but the Tariff Commission report leaves the way open to the conclusion that these difficulties were mainly associated with the post-war retrenchment of an industry which enjoyed a temporary boom during the war as a combined result of a cigarette shortage, increased pipe-smoking by men in the services, vast purchases of pipes in anticipation of Army post-exchange demand, and the shutting off of normal imports. The end of the war, resumption of an earlier trend away from pipe-smoking in favor of cigarette-smoking, the unloading of a government surplus of pipes and resulting chaotic price conditions in early postwar years did undoubtedly drive a number of weaker firms and war babies out of business. The Tariff Commission in its report does not seem to have considered the Government surplus as significant in the retrenchment period, although the quantity unloaded is estimated at upward of four million pipes, a figure equal to total imports in the years 1947–50 inclusive.

Although the return of imports may have contributed to the distress of the industry, it is significant that according to the Commission's report the industry seems to have been recovering from its worst troubles during the last two or three years, when imports have been largest. The Commission's report states that 1949 was the worst year, but imports in that year were less than in 1950, when better profits results were shown. In 1951 profits were larger and were more widely experienced, though imports again were larger.

In short, ample explanation for early post-war problems is to be found in factors unrelated to imports, which had in fact not yet regained their old importance. In the more recent period, imports have increased but the industry seems to be doing better rather than worse. Quite apart, therefore, from the political effects of the proposed action on our foreign relations, this action does not appear justifiable as a necessary measure to prevent serious injury

from imports within the meaning of the escape clause[3] of the reciprocal trade-agreements program.

The Department of State has weighed these considerations carefully, bearing in mind both domestic and international aspects. On balance, we are persuaded that the difficulties of the industry are not attributable to imports to the extent contemplated by the escape-clause proviso, that in addition there are strong foreign-policy considerations against taking the action.[4]

WALTER B. SMITH

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[3] The origins of the "escape clause" are briefly explained in the memorandum dated Feb. 25, 1953, under "No-injury Test," p. 151.

[4] On Feb. 18, 1953, President Truman notified the Chairmen of the Senate Finance Committee and the House Ways and Means Committee of his decision not to carry out the Commission's recommendation.

411.0031/2-2553

Memorandum by the Assistant Legal Adviser for Economic Affairs (Metzger) to the Deputy Legal Adviser (Tate)[1]

CONFIDENTIAL [WASHINGTON,] February 25, 1953.

Subject: Renewal of Reciprocal Trade Agreements Act and Related Problems—A Current Appraisal

During the past few months there has been a considerable amount of re-examination within the Department of the policy of the United States with respect to foreign trade. This re-examination has been stimulated by a number of factors including the expiration on June 12, 1953 of the President's authority to enter into new trade agreements under the Trade Agreements Act, the study of this subject by the Public Advisory Board set up by President Truman, the continuation of balance of payments difficulties of the major European trading countries at a time when various types of financial assistance from the United States are being, or are likely to be, reduced substantially and, since last November, the forthcoming change of Administration.

I. Reciprocal Trade Agreements Extension

Since the original enactment of the Trade Agreements Act on June 12, 1934[2] the policy of the United States with regard to foreign trade has become largely centered around that act and the

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[1] Drafted by Walter Hollis of the Office of the Assistant Legal Adviser for Economic Affairs.

[2] The Trade Agreements Act (Public Law 316), enacted June 12, 1934, was embodied in Section 350 of the revised Tariff Act of 1930 and entitled "Promotion of Foreign Trade;" for text, see 48 Stat. 943.

agreements concluded pursuant to it. Under the act the President is authorized to proclaim limited reductions in duties, and, in very general language, other regulations as to trade, in order to carry out trade agreements. The authority to conclude new agreements to be carried out under this Act expires periodically and has in each case been renewed following examination by the Congress of action by the Executive under the statute. Agreements in effect are not directly affected by the time limitation upon the President's authority to conclude new agreements, although the statute requires that, following an initial period of not more than three years, agreements must be terminable on not more than six months' notice.

Pursuant to rather general language in the original statute elaborate procedures were gradually developed with respect to the negotiation of trade agreements. The policy-making body with respect to trade agreement matters is the Interdepartmental Trade Agreements Committee, now constituted by Executive Order, the chairman of which is the Chief of the Commercial Policy staff in the Department of State. Its membership consists of representatives from the Departments of the Treasury, Defense, Interior, Agriculture, and Commerce, Labor, and from the Mutual Security Administration, and of a Commissioner of the Tariff Commission (acting in an individual capacity). Operating through interdepartmental subcommittees when considering matters requiring a large amount of research, this committee examines in detail practically all questions relating to trade-agreement matters, and, where appropriate, makes recommendations to the President as to action to be taken.

Tariff Rates

The original Trade Agreements Act authorized the President to increase or decrease rates of duty by not more than 50% of the existing rate or to provide for the continuation of existing customs treatment, that is, the so-called binding of rates against increase or the binding of duty-free treatment. As World War II was drawing to a close, trade agreements legislation in 1945, extending for three years the President's authority to conclude agreements, authorized reductions in duty of 50% of the rate in effect January 1, 1945, that is reductions to 25% of the 1934 rate in cases in which the latter had been reduced by the full 50% permitted in the original legislation. This authority has been utilized for the major trade agreement negotiations in connection with a General Agreement on Tariffs and Trade, at Geneva in 1947, at Annecy, France, in 1949, and at Torquay, England, in 1950–51.

A major negotiating problem which is expected to arise in the near future will be our first tariff negotiation under the Trade

Agreements Act with Japan, the application for the accession of which to the General Agreement is now under preliminary consideration by parties to that agreement. These parties are also examining in a preliminary manner various proposals for general schemes of tariff reduction under which participating countries would make certain percentage reductions in the average rates of their tariffs applicable to specified categories of products. The extent of flexibility which a country would have under these plans to retain high duties on particular products depends, to a large extent, upon the number of products included within the various categories to which the percentage of reduction would be applied.

These possible negotiations within the next few years, together with the growing emphasis on the need for more exports from European countries to dollar areas, particularly the United States, at a time when direct financial assistance is being reduced, have led to examination of various possibilities of including in the Trade Agreements Act additional authority for the reduction of tariffs. Considerable authority still remains for the reduction of duties on various imports of particular interest to Japan as a result of the policy usually followed in the negotiation of trade agreements of not granting concessions to one country covering products of which another country is the principal supplier.

For example, in addition to the possibility of permitting rates to be cut by 50% of the rate in effect on some new base date, as January 1, 1953, thought is being given to authorizing the reduction of duties between 30% ad valorem and 40% ad valorem to 30% ad valorem, duties between 20% ad valorem and 30% to 20% ad valorem, et cetera. Any such formula as the latter raises problems as to specific duties, that is, duties imposed at so much per unit of measure, and duties which are in part specific. Either the above formula could be applied to the ad valorem equivalent of the specific duties on a particular date, or some other formula, as that of authorizing 50% reductions, would have to be applied to them.

The existing Trade Agreements Act, which was originally enacted during the depression in 1934, gives as the one purpose for concluding the agreements the expanding of markets for exports from the United States. In negotiating trade agreements under this act an attempt has usually been made to strike a fairly even balance between the concessions obtained for United States exports and the concessions granted for exports from other countries. In view of the particular need currently for exports to the United States from other countries in balance of payments difficulties, it is believed by many that this criteria of even balance and emphasizing only markets for United States exports, is no longer adequate.

In addition to the consideration of much broader foreign policy objectives as purposes for which trade agreements may be entered into under the Trade Agreements Act, consideration is also being given to the possibility of tariff reductions being made, either by Congress or the Executive other than as a part of negotiated trade agreements. One proposal has been that Congress reduce to 50% ad valorem, or the equivalent thereof, all rates in excess of that rate and that the Executive be given authority thereafter to reduce any tariff rate to 10% ad valorem (or to 12½% ad valorem which is understood to be the approximate average level of our tariff) or to the ad valorem equivalent of any such rate in the case of specific duties. At least one-half of this reduction by the Executive would have to be pursuant to trade agreements of the type heretofore concluded; the other half could be reduced by the Executive without requiring the usual type of trade-agreement commitment from the other country. Since some of the measures which the United States may wish to try to persuade other countries to adopt, such as reforms in their internal fiscal policies, are not the type of measures to which they would be willing to bind themselves in formal agreements, it has been proposed that the Executive be given this authority to make unilateral reductions in particular cases, presumably where other countries adopt such measures, without formal commitments on either side.

Another rather complicated proposal for unilateral action would be the grouping of products into related classifications, and the determination of the average rate now applicable to products in each group. Then the rate for all products in the group would be fixed at 40% ad valorem if the average were above 40%, at 30% ad valorem if the average were between 30% and 40%, et cetera. Special treatment would be given to specific rates, to rates which were wholly or partly specific, and to rates on products of particular strategic significance.

In view of the talk of an early adjournment by Congress and in view of the importance of some of the other trade problems which are discussed below, there may be considerable likelihood at this session of a simple extension of the authority to conclude trade agreements, or at least of action without increased authority to reduce tariffs. Some opportunity may be presented for adding to the law in some form one or more of the following new bases for tariff reduction:

1. Unilateral reduction by the Executive other than pursuant to formal trade agreements;
2. Authority to reduce particularly high rates to a specified level without regard to limitations applicable to other reductions;

3. Authority to make a series of relatively moderate reductions, each successive reduction being permissible only after the next preceding reduction has been in effect for a specified time; or

4. A broadening of the purposes for which trade agreements may be entered into.

II. Related Problems

1. *General Agreement on Tariffs and Trade*

Although the provisions of the Trade Agreements Act itself are directed principally to authority to reduce duties, the Act also authorizes the modification of import restrictions, the imposition of new restrictions and the continuation of existing customs treatment. Most of the 30-odd bilateral trade agreements which were concluded between 1934 and 1948 contain, in addition to provisions putting into effect the reductions and bindings of duties, rather extensive provisions relating to other trade controls, many of them designed to protect the tariff concessions from impairment. The most important of these were prohibitions, with specified exceptions, against the imposition of quantitative restrictions on the importation of products on which tariff concessions had been granted, most-favored-nation treatment with respect to duties and restrictions on importation, and national treatment as to the taxation of imported products. Occasionally various provisions of this nature had been referred to with approval in the reports of Congressional committees recommending extension of the President's authority to enter into new trade agreements.

During and after the second World War the United States took the leadership in attempting to work out a multilateral code of international trade practices to be administered by an organization. A preparatory committee, to work out the charter of this organization for submission to a world conference, was set up by the Economic and Social Council of the United Nations in 1946. That preparatory committee decided at its first session in 1946 that, in addition to work on the draft charter for the International Trade Organization, negotiations for reduction of tariffs should be undertaken at its second session to be held at Geneva in 1947, without waiting for completion of the charter. The report of a drafting committee set up by this first session contained a preliminary draft of the agreement which might be concluded at the end of such tariff negotiations, which would provisionally contain most of the articles of the draft charter relating to commercial policy. These were in general an elaboration, on a multilateral basis, of the general rules and exceptions thereto contained in bilateral trade agreements. The draft tariff agreement also provided for an interim trade committee to carry on various administrative functions in many respects parallel with the functions relating to commercial policy

which it was envisaged would subsequently be carried on by the organization under the draft charter.

On the eve of the Geneva Session of the preparatory committee, the Finance Committee of the Republican 80th Congress held hearings on the draft of the Charter to be considered at that meeting. In the course of such hearings some attention was given by the committee to the draft tariff agreement. The view was expressed by Senator Milliken, then and now Chairman of the Finance Committee, that although it had been stated that the Charter of the International Trade Organization would be brought back to Congress, as had been the charters of numerous other organizations, the tariff agreement was an attempt to set up a comparable organization without obtaining Congressional approval. The Finance Committee was assured that this would not be done, and that no provisions of the tariff agreement would purport to override existing legislation.

The tariff agreement was negotiated in 1947 under the name of the General Agreement on Tariffs and Trade and came into effect in January 1948. The references in the draft to action by the interim trade committee were changed to action by the contracting parties to the agreement acting jointly, and provision was made that most of the general rules applicable to trade, as distinguished from the tariff concessions for which there was more specific authority in the Trade Agreements Act, would be applicable only to the extent not inconsistent with existing legislation.

It had been anticipated that upon the entry into force of the Charter for the International Trade Organization most of the general rules governing trade contained in the General Agreement would be superseded by the comparable provisions of the Charter, and that the General Agreement would remain principally as an agreement applying the tariff concessions negotiated from time to time. However, the International Trade Organization was never set up, and these general rules have remained in the General Agreement. The contracting parties to the General Agreement have held eight sessions to consider various problems under the agreement relating both to the tariff concessions and the general rules as to trade. They have also held two longer sets of tariff negotiations for the addition of new contracting parties and new tariff concessions, and now have a number of committees to work on matters pending or arising between sessions.

Due to this early situation as to the relationship between the General Agreement and the International Trade Organization Charter, to the scope and complexity of the general trade provisions in the multilateral general agreement, and to some extent to the wide imposition by other countries of restrictions on exports from the United States, which are justified on balance-of-payments

grounds under terms of the agreement, many questions have been raised both in Congress and in business groups, regarding the agreement. A number have related to the legal authority for some of its provisions, while others are based on policy considerations. The questions usually single out the General Agreement itself, as distinguished from the trade agreements program as a whole.

This feeling was reflected in the statement in the Senate report in 1949 recommending extension of the President's authority to conclude new agreements, following a detailed examination of the General Agreement by Senator Millikin [3] and officers of this Department, that the favorable report "is not intended to commit the Congress on questions raised by the incorporation of general regulatory provisions in the multilateral trade agreement recently concluded at Geneva or on any other aspect of our foreign trade program". This was followed by a statement that full consideration of such matters would no doubt be undertaken when the International Trade Organization Charter was submitted to Congress.

The Trade Agreements Extension Act of 1951, extending, with amendments, the President's authority to conclude new agreements, contains a separate article stating that "the enactment of this Act shall not be construed to determine or indicate the approval or disapproval by the Congress of the Executive Agreement known as the General Agreement on Tariffs and Trade".

In addition to these general questions, a problem exists with respect to the financing of participation by the United States in the activities of the contracting parties. Since there has been neither express Congressional approval of the agreement nor authorization for any appropriation for this purpose, participation has been financed through the general international contingencies appropriation of the Department of State. If questions should be raised with respect to a continuation of this practice during consideration of the budget of the Department of State considerable embarrassment might be caused to the participation by this country in the activities of the contracting parties.

From the above it seems clearly evident that a meeting of the minds with respect to the General Agreement, perhaps with various amendments, should be reached between the Executive and the Congress. The Executive has felt that the President has had ample authority under the Trade Agreements Act and his general authority with respect to the conduct of foreign relations to enter into the General Agreement and to modify its provisions from time to time as amendments were considered appropriate. Consequently, it would seem preferable to have Congress merely authorize appro-

[3] Eugene Millikin (R.-Colo.), Chairman of the Senate Finance Committee.

priation for participation by the United States in the agreement, or to authorize participation in the contracting parties as an organization. Any such authorization would of course entail a detailed examination of the agreement by the Congress. It might, of course, be quite difficult to obtain from the Congress approval in such a form leaving full discretion with the Executive, even with more or less informal Congressional proposals for amendment of the agreement.

It seems likely that, following a minute examination of the General Agreement, Congress would want to express itself in a formal manner as to the agreement as such, presumably approving it subject to its being amended in important respects. Such action might cause considerable difficulty. In the first place, very important parts of the agreement are the schedules of tariff concessions, which on the part of the United States, are clearly within the prior authorization given to the President in the Trade Agreements Act. A basic purpose of that act has been to place tariff making in the hands of the Executive rather than of Congress, and subsequently approval of the whole General Agreement by the Congress would raise important questions as to whether a review of Executive tariff making was not being brought back into the Congress with its attendant dangers. Moreover, such positive action by the Congress now approving the whole agreement would appear to cast serious doubt as to the prior legality of at least parts of the agreement, which has been considered by the Executive as having been validly in effect since 1948.

Finally, if the exact text is approved it might be specifically required, or argued by implication, that all protocols of amendment or modifications of the agreement, of which there have been a considerable number (in many instances the modifications have been either relatively minor or of little concern to the United States), should themselves receive formal Congressional approval before they could be accepted by the United States. Such a procedure would greatly delay action by the United States on these documents and appear to take up an unnecessary amount of the time of both the Executive and the Congress.

An approach to this problem to which consideration is now being given, which might be a compromise if it seems impossible to obtain simple authorization, is to add to the Trade Agreements Act, either with some express reference to the General Agreement or in a manner applying to all trade agreements, relatively general standards covering general rules as to trade and some of the more important exceptions thereto, which would have to be included in the relevant agreements under that Act. At the same time authorization might be obtained for an appropriation either for participation in the General Agreement or, more generally, for participation

in continuing administrative arrangements for carrying out a trade agreement. It is hoped that the formulation of such standards by Congress, which might well require the amendment of the General Agreement in some respects, would be considered by the Congressional critics of the agreement as sufficient participation by the Congress, and that the more formal submission of the agreement as such for approval could be avoided.

It is felt by some that the general rules as to trade in the General Agreement, as well as in the International Trade Organization, are too complicated, and it has been proposed that the General Agreement be reduced to an agreement putting into effect the tariff concessions. It would then be supplemented by a purely consultative organization with respect to trade matters which could make recommendations as to the general rules but without any binding rules and exceptions such as are now in the General Agreement. The general feeling within the Department seems to be that this would be a most unfortunate backward step. In the first place, many of the general rules in the agreement are important to prevent, or at least limit, evasion of the tariff concessions through the imposition of other trade controls. Moreover, most of the detailed rules and procedures, including provisions for action by the contracting parties acting jointly, relate not to the laying down of additional obligations but are exceptions to relatively simple general rules.

There are practically no instances in which the contracting parties acting jointly could tell the United States that they must take certain action; on the other hand, the United States has utilized in many instances provisions of the agreement permitting flexibility, notably to obtain a complete release from its obligations to Czechoslovakia under the agreement, in order to put into effect Congressional desires. In practice the contracting parties attempt to assist individual countries in working out their difficulties with each other, frequently making recommendations as well as interpretations of the General Agreement. Of course, as in the case of participation in almost any multilateral agreement, the United States becomes only a minority of one when questions of interpretation are involved.

Although the authority of the contracting parties acting jointly is generally limited to the interpretation of obligations which an individual party has undertaken in the agreement, rather than to placing any new requirements upon a party, there are a number of instances under which sanctions may be applied in the form of retaliatory action by injured contracting parties which would not otherwise be permitted under the agreement. In most cases the retaliation must be approved by the contracting parties acting jointly.

These retaliatory provisions have been utilized very sparingly, but it is felt that their existence gives a vitality to the conduct of business by the contracting parties which would be absent if their meetings should be replaced by a purely consultative body.

2. *Quantitative Restrictions*

In order to protect the concessions which had been granted on particular products in the schedules annexed thereto, most of the bilateral trade agreements contained prohibitions, subject to specified exceptions, against the imposition of quantitative restrictions on the importation of such products. The exceptions usually included permission to impose restrictions in connection with various agricultural programs.

At the time the General Agreement was entered into Section 22 of the Agricultural Adjustment Act, as amended,[4] required the President to impose restrictions on imports of agricultural products when he found such restrictions necessary to prevent imports from materially interfering with certain agricultural programs, including programs in which domestic production or marketing was restricted. The General Agreement contains a broad prohibition against quantitative restrictions on imports of any product, whether or not included in the schedules to the agreement, but subject to various exceptions. Among these is an exception for agricultural products in cases in which domestic production or marketing is also restricted. However, in such cases the import restrictions may not under the Agreement reduce the proportion of domestic consumption that may be supplied by imports below the proportion thereof during a previous representative period.

Shortly after the General Agreement went into effect Section 22 of the Agricultural Adjustment Act was further amended[5] to require the imposition of quantitative restrictions if imports were likely to interfere with any price support program, in many of which there are now no provisions for the restriction of domestic production or marketing. At the same time a new subsection was added to the effect that Section 22 should not be applied in any manner which would conflict with an international obligation of the United States. The latter provision, protecting international obligations, has subsequently been practically reversed by Congress so that now it provides, in effect, that no international obligations shall prevent the application of Section 22. Although there have

[4] Section 22 was enacted into law on Aug. 24, 1935, as one provision of the amended Agricultural Adjustment Act (Public Law 318) and was reenacted on June 3, 1937, as part of the Agricultural Marketing Agreement Act of 1937 (Public Law 137). For texts, see 49 Stat. 773 and 50 Stat. 246.

[5] Section 22 of the Agricultural Act of 1948 (Public Law 897), enacted July 3, 1948; for text, see 62 Stat. 1249.

been no proclamations issued under this new Section 22 in order to prevent imports from interfering with a price support program under which there is no restriction of domestic production or marketing, the Tariff Commission now has under consideration a proposed application of Section 22 with respect to wool which would raise problems of this nature if it should lead to Presidential action putting into effect quantitative restrictions on imported wool.

It is recognized that action by the Government which has the effect of maintaining a relatively high price for agricultural commodities tends to make this market a particularly attractive one for imports, and therefore to attract imports which add to the cost to the Government of maintaining its price support program. Recognizing the validity of the arguments for the imposition of some quantitative restrictions in this type of situation, consideration is being given to a change in our policy, which would involve a change in the General Agreement, to permit restrictions in such a case provided they do not reduce the proportion of the American market supplied by imports below that proportion which they would normally have supplied. In other words imports may not come in merely to replace domestic production, but may come in to maintain their proportionate share of any increase in domestic consumption. This new approach would also require a modification of Section 22, which now permits the limitation of imports to 50% of the quantity imported during a previous representative period rather than to 100% of the proportion of domestic consumption supplied by imports during such a period, as would be the limit under the new proposal.

Another important exception in the General Agreement for agricultural interests is that relating to commodity agreements, which covers other raw materials as well. Before World War II the United States was a party to commodity agreements designed to assist in maintaining fair prices for sugar and coffee. Although the substantive provisions of these agreements have lapsed, a conference is scheduled for next summer to consider a new sugar agreement, and the wheat agreement, which has been in effect for about four years, is currently under renegotiation. Some consideration has also been given since the war to agreements on tin and cotton.

In 1947 the Economic and Social Council of the United Nations laid down principles that should be applied in the conclusion of commodity agreements, including the representation therein of both producing and consuming interests. These principles, together with procedures for studies which might lead to commodity agreements, were embodied in a commodity chapter of the International Trade Organization Charter. The General Agreement contains no express statement of the principles, but excepts from the general

prohibitions against restrictions on importation and exportation, measures undertaken pursuant to an agreement conforming to the principles laid down by the Economic and Social Council.

The policy of the United States has been to limit commodity agreements to cases in which there was an actual threat of a burdensome surplus. The current thinking, however, is that such agreements may be justified for commodities the general history as to the production of which shows a likelihood that a burdensome surplus might develop at some time in the future, even though there is no present threat of such a surplus.

The basic economic difficulty between the United States and Europe since the War—the serious dollar balance-of-payments deficits of most European countries—has left its mark on the General Agreement and on the operations under it. The Agreement permits the imposition of quantitative restrictions by a country to protect its reserve position, and, in rather vague language, permits countries imposing such restrictions for balance-of-payments reasons to discriminate in their application. These provisions are quite detailed, more as to the procedures which they set up than as to the substantive rules to be applied. They have been the subject of considerable domestic criticism because of the extent to which they permit countries to impose restrictions, even discriminatory restrictions, against the United States.

In connection with the European Recovery Program[6] the United States has encouraged the relaxation by European countries of their restrictions among themselves while recognizing their right to retain them against the dollar area. There is no doubt that the continuance in effect over a long period of restrictions for balance-of-payments reasons creates a considerable amount of protection for domestic industry and that there are numerous opportunities for abuse of the exceptions. This and other problems relating to these restrictions have been the subject of rather close examination during the more recent meetings of the contracting parties, in a general exploratory fashion rather than through the bringing of particular complaints.

The exceptions permitting the balance-of-payments restrictions require their relaxation or removal when the reserve position has been strengthened sufficiently to warrant such a removal. This provision has led to one particular difficult problem with respect principally to the sterling area discussion of which among the Contracting Parties has been seriously avoided. This is the question whether when the trade position of a particular member of the area, as

[6] For documentation concerning the formulation and early operation of the ERP, or Marshall Plan, see *Foreign Relations*, 1947, vol. III, pp. 197 ff.

Ceylon, has improved so that when viewed alone it might be considered as being in a position to relax or eliminate its restrictions on the dollar area it should be required to do so without recognizing its obligations under the sterling area arrangement to make available to the sterling area dollar pool a substantial proportion of its dollar earnings. Although this Government has attempted to reserve its rights with respect to this point, its continued failures to press for relaxation or elimination of restrictions in such cases because of the political implications involved seem to weaken its position considerably. Operations under the European Payments Union may lead to comparable conflicts of policy.

It was envisaged, at the time the General Agreement was drafted, that the balance-of-payments difficulties following the War would in most cases not continue beyond 1951 and many of the complicated provisions of the agreement relating to the application of restrictions to protect reserves were drafted with such a relatively transitional period in mind. Although this situation has not been cleared up as quickly as had been anticipated, the current feeling is that we should continue to consider such restrictions, and the discriminations in their application, as transitional and operate under them in the expectation that the time will come when they are unnecessary on the return of the general convertibility of currencies. Moreover, there is considerable feeling that these balance-of-payments provisions of the General Agreement are unnecessarily detailed and complicated, principally as to procedures for considering the balance-of-payments problems, and that consequently it would be desirable to replace them by more simplified provisions.

Formation of the European Coal and Steel Community, which was supported by the United States for reasons of broad political and military policy, presented particular problems with respect to the discriminatory application of both quantitative restrictions and tariffs. The plan envisages the substantial elimination of trade barriers among the six participating countries with respect to the coal and steel products. Rather broad waiver provisions in the General Agreement were utilized to permit the participating countries to put the community into operation.

A particular problem with respect to quantitative restrictions for the United States has been the conflict between the General Agreement and Section 104 of the Defense Production Act, first enacted in the summer of 1951. This section requires the imposition of quantitative restrictions on the importation of dairy products and certain other specified imports when it is found that certain situations exist for which there is no exception in the General Agreement. Notwithstanding the fact that Congress, in enacting the legislation, stated that it was necessary for the security interest of the

United States in language following that of the security exception to the General Agreement, the Executive has not considered that there is sufficient relationship between the controls and our security to justify the restrictions which the Secretary of Agriculture has found necessary under this legislation.

In the case of most of the restrictions which have been imposed under this legislation, the more important of which have been on cheese, the United States has admitted a violation of the General Agreement, and one injured contracting party has been permitted by the contracting parties jointly under the agreement to retaliate against United States exports of flour.

The Executive opposed an enactment of the section, which was inserted in the legislation rather hurriedly at an advanced stage in consideration of the bill. Promptly upon its enactment legislation for its repeal was introduced, but was never passed. In extending the Defense Production Act in the summer of 1952 Congress liberalized the provision somewhat, but without removing the violations of the General Agreement. At that time the Executive had been willing to accept as a compromise language of an earlier act which permitted the imposition of restrictions under situations of surplus or short supply of the products involved. This proposed language follows an exception in the General Agreement applicable originally only to the transitional period prior to 1951, but the application of which is being currently extended by action of the contracting parties jointly.

3. *No-injury Test*

Some of the early bilateral Trade Agreements contained variously worded provisions under which concessions could be withdrawn if imports under them were causing serious injuries to a domestic industry. These culminated in the so-called "escape clause" in the Mexican trade agreement of 1942,[7] under which concessions could be withdrawn in case of serious injury or threat thereof to a domestic industry resulting from increased imports under the concession. Moreover, during various discussions regarding trade agreement legislation with Congress statements had also been made that the trade agreements program would not be carried out in such a manner as to cause serious injury. In 1945 President Truman wrote to Congress that his administration would follow this policy which had been followed by the Roosevelt administration.

Early in 1947, as a result of discussions between an official of the State Department and Senate leaders in the Republican 80th Congress, an Executive Order was issued providing that all new trade

[7] Article XI, "Agreement Between the United States of America and Mexico Respecting Reciprocal Trade," signed on Dec. 23, 1942; for text, see 57 Stat. 845.

agreements should contain an escape clause along the lines of that in the Mexican trade agreement. It also set up a procedure whereby Tariff Commission would make investigations in cases in which it was claimed that serious injury might be caused or threatened as a result of a concession in an agreement having such a clause and make recommendations to the President regarding the claim. An escape clause of this type is included in the General Agreement.[8]

The Trade Agreement Extension Act of 1948,[9] passed by the 80th Congress, added a new phase to the no-serious injury approach. In substance it provided that, before a trade agreement should be entered into, the President should submit to the Tariff Commission a list of the products on which tariff concessions might be granted. The Commission should report the extent to which it considered a concession could be granted on each product in the list without causing or threatening serious injury to an American industry. If the President granted a concession on any product greater than that which the Tariff Commission found could be granted without such injury or threat, he should report his action to Congress and the Tariff Commission should transmit its peril point finding to Congress. These provisions were followed in preparation for the trade agreement negotiations at Annecy in 1949, but were repealed by the Trade Agreement Extension Act of 1949,[10] enacted by the 81st Congress before the conclusion of the agreement embodying such negotiations.

The Trade Agreement Extension Act of 1951[11] reenacted the peril point provisions with relatively little change, and also added to the trade agreements legislation provisions regarding escape clauses and action thereunder. In rather ambiguous language it laid down the escape clause principles and required the inclusion of such escape clauses in all such future trade agreements. In addition, it directed action toward the inclusion of escape clauses in existing trade agreements and set up a new procedure for Tariff Commission investigations and recommendations to the President under escape clauses. As in the case of peril point findings, the President is not required to put into effect recommendations of the Tariff Commission for the withdrawal of modification of concessions but if he fails to do so he is required to report his reasons to Congress.

Enactment of this legislation was followed by a flood of applications for escape clause action, upon which the Tariff Commission is

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[8] Article XIX, "Emergency Action on Imports of Particular Products," General Agreement on Tariffs and Trade.

[9] Public Law 792, enacted June 26, 1948; for text, see 62 Stat. 1053.

[10] Public Law 307, enacted Sept. 26, 1949; for text, see 63 Stat. 597.

[11] Public Law 50, enacted June 16, 1951; for text, see 65 Stat. 72.

required to report within one year. In several cases the Commission had failed to recommend action, in three cases (one preceding the 1951 act) escape clause modifications have been put into effect, and in two cases the President had rejected recommendations, questioning and finding of serious injury or threat thereof. President Eisenhower has deferred action, and requested further information from the Commission, in the only case that has come to him for decision.

The reaction abroad, principally in Italy and other Western European countries, to the escape clause actions that have been put into effect has been quite strong. Not only has it been felt that the particular actions interfere with the program for an expansion of exports to the United States by countries so badly in need of dollar earnings, but it is pointed out that the possibility that a future expansion of exports of any product may result in escape clause action has a generally deadening effect upon attempts to stimulate this much needed trade expansion.

In view of the unfortunate effect of these escape clause actions, consideration has been given to various means of alleviating the situation. Some would relate to detailed questions of interpreting such terms as "serious injury" under certain circumstances, or to the scope of the concept of an "industry" which might suffer injury. Another approach has been to have a body composed differently from the Tariff Commission take into consideration both the questions of injury and of the broader public interest which may be involved in escape clause actions. A third approach would be only to permit escape clause action when the economy of the United States as a whole, rather than an individual industry, is suffering injury from the imports.

Finally, some thought has been given to replacing the "no-injury" concept by provision for making payments by the Government to enterprises injured by tariff reductions. These might include various types of assistance to labor, in the form of dismissal wages or retraining programs, and of assistance to capital either through direct compensation for loss suffered by the enterprise or through a low interest loan (on possibly a grant) to help enterprises to readjust themselves in other lines of activity.

In view of the development of the no-injury concept, as previously embodied in the escape clause provision of the 1947 Executive Order and the peril point provision of the 1948 Act, it might be considered doubtful whether substantial change could be gotten. However, realization of the extent to which other countries, particularly in Western Europe, need to increase their exports to the United States would seem to justify the continuing examination of this aspect of the trade agreement program. It might be possible to

obtain at least some substantial relaxation in the criteria to be applied under the escape clause.

4. *Buy American Provisions*

In 1933 legislation [12] was enacted requiring, in quite general language, that Government purchases of goods for use in the United States should be of United States products except where the public interest required otherwise or the cost of such products was unreasonably high. For some time the cost of American goods have been considered as unreasonably high if their prices were more than 25% above the prices of available foreign products.

Recently, there have been a number of requests by Western European countries, notably the United Kingdom and Italy, with respect to the rejection of bids by producers in those countries at a time when we have encouraged the countries to increase their dollar exports. A bill was introduced during the last session of Congress to repeal this buy-American legislation, and the prevailing thinking in the Department is that this would be the best way of taking care of the problem.

Thought is also being given to the possibility of increasing the use of foreign goods through an interpretation that, under existing circumstances, purchase of such foreign products is in the public interest within the meaning of the statute. It has also been suggested that the percentage by which the American price must exceed the foreign price before the American price will be considered unreasonably high might, by interpretation, be reduced below 25%.

The Defense Department Appropriation Act for the present fiscal year has a particular provision which in effect requires not only that American textiles be purchased but textiles manufactured from American raw material.

5. *Custom Simplification*

The Executive introduced into the 81st Congress a Custom Simplification Bill which had been worked out on an interdepartmental basis to include recommendations made by a firm of efficient experts which had investigated the Customs Bureau, and modifications in customs and internal revenue legislation which would be necessary to put the General Agreement into effect definitively (as distinguished from the present application of some ports only to the extent not inconsistent with existing legislation). No action was taken on the bill in the 81st Congress, but it was re-introduced in the 82nd Congress where it passed the House, with important amendments, and hearings were held in the Senate.

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[12] Title III of the Appropriations Act of 1933 (Public Law 428), approved Mar. 3, 1933; for text of Act, see 47 Stat. 1489.

It is felt both that provisions deleted by the House were of considerable importance, that there are numerous other modifications which might be added to the earlier bills, some of them proposed during the Senate hearings and considered quite uncontroversial. Consideration is now being given in consultation with the Treasury to pressing for the passage of a broad bill at this session, although it is recognized that another approach would be to have two bills one with the more uncontroversial provisions with a view to having it passed as quickly as possible, and the other containing additional more controversial provisions.

Considerable interest has been expressed by some countries, particularly Canada, in these bills, but it is feared that they may overestimate the effect of such a bill, especially if it should be limited to the less controversial provisions.

394.31/4-3053

Memorandum by the Assistant Secretary of State for Far Eastern Affairs (Robertson) to the Assistant Secretary of State for Economic Affairs (Linder)[1]

SECRET [WASHINGTON,] April 30, 1953.

Subject: The Secretary's Testimony on the Trade Agreements Act

Because of great domestic pressures, the Japanese Government has been persistently seeking some way by which Japan can quickly accede to the General Agreement on Tariffs and Trade (GATT). Apparently we have finally convinced the Foreign Office that the decision made by the President to request renewal of the Trade Agreements Act for one year only, precludes the full-scale negotiations with the United States normally to be expected before Japan could accede. However, they have informally proposed the following:

(1) That the U.S. support early multilateral negotiations of the Annecy type. That is, the present contracting parties would negotiate only with Japan and any other countries which might wish to accede.

(2) The United States agree to negotiate bilaterally with Japan, but with the understanding that the United States would only bind some existing rates of duty against increase. The Japanese believe that negotiations in which no reductions in duty were made would be consonant with our commitment to Congress not to enter into "substantial negotiations". The Japanese might be willing to accede without any additional concessions of any kind—even new bindings.

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[1] Drafted by White.

The Japanese have presented us with a thorny problem. It will be necessary to examine the proposal to determine whether the advantages to be gained from such action would be worth the risks incurred. It is recognized that we would have to wait until after the Trade Agreements Act is renewed to commit ourselves to the Japanese, and even then only after reaching agreement with congressional leaders that such negotiations would be consonant with the commitment not to enter into "major negotiations" in the coming year. On the other hand, it is clear that if we refuse the proposal out of hand, United States-Japanese relations would be seriously impaired.

In the meantime, I think we should suggest to the Secretary that if he is asked at the trade agreements hearing Monday whether we would negotiate with Japan he avoid making a reply which would preclude our agreeing to the Japanese proposal. If you agree, NA will work out with CP an additional "question and answer" to be added to the Secretary's black book.

394.31/7-1353

Memorandum by the Deputy Assistant Secretary of State for Far Eastern Affairs (Johnson) to the Secretary of State

CONFIDENTIAL [WASHINGTON,] July 13, 1953.

Subject: Necessity of United States Support in Order to Facilitate Japan's Accession to the General Agreement on Tariffs and Trade (GATT)

Discussion

The Japanese Government is insistently asking our continuing support for Japan's application for accession to GATT. To the Japanese, accession to GATT even on a temporary basis is of the utmost political importance. In addition the Japanese look forward to significant economic benefits from GATT membership, particularly commitments for most-favored-nation treatment which have so far been denied them by important trading nations, for example, the United Kingdom and British Commonwealth countries.

The Japanese have suggested full-scale multilateral tariff negotiations which would enable them to qualify for full membership in GATT. As alternatives they have suggested: (a) bilateral tariff negotiations or (b) temporary membership pending full-scale negotiations. The Japanese intend soon to put before the contracting parties to the GATT proposals for either bilateral negotiations or temporary membership. As a temporary member Japan would be brought within the GATT framework and would incur both bene-

fits and obligations, pending later negotiations to determine the conditions under which Japan would accede to GATT as a full member.

We consider that either full-scale or bilateral tariff negotiations would be inconsistent with our commitment to the Congress not to use renewed authority under the Trade Agreements Act[1] for major tariff negotiations. On the other hand, the United States might support temporary membership for Japan if you agree that such action would be consistent with the statement with regard to Japan included in your testimony on May 4 before the House Ways and Means Committee (Tab A).[2]

In early 1953, largely through United States efforts, the long-standing opposition of the major GATT countries was sufficiently reduced so that they were willing to give serious consideration to non-discriminatory terms for Japan's accession to GATT. It is doubtful, however, whether temporary membership for Japan would be acceptable to those countries since they have stated that, in their view, Japan should accede to GATT only as the result of multilateral tariff negotiations in which the United States and other contracting parties would participate fully and would make worthwhile tariff concessions to each other as well as to Japan.

Regardless of the outcome, the withdrawal of United States support for Japan's desire to accede to GATT would impair our ability to obtain Japan's cooperation in such important projects as their defense measures and export security controls. We consider, therefore, that the United States should not discourage Japan from proposing temporary membership.

If Japan's proposal for temporary membership is approved by the contracting parties, Japan incurs both obligations and benefits under the general rules embodied in the GATT. In addition the contracting parties would become obligated to extend to Japanese products, subject to the various escape provisions in the General Agreement, the tariff rates set forth in the schedules of concessions, in return for tariff concessions by Japan. In the case of the United States, existing concessions would be extended to Japan pursuant to the authority of the Trade Agreements Act (See Tab B),[3] and at the appropriate time public notice of intention to negotiate with Japan would be issued as required by that Act.

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[1] The Trade Agreements Extension Act of 1953 (Public Law 215), which was enacted on Aug. 7, 1953, extended the President's powers under the Trade Agreements Act for one year ending June 12, 1954; for text, see 67 Stat. 472.

[2] Not printed. The full text of the Secretary's testimony is included in "Trade Agreements Extension Act of 1953," *Hearings on HR 4294*, House of Representatives, Committee on Ways and Means, 83d Cong., 1st sess., Apr. 27–May 19, 1953.

[3] Not printed.

No change would result in the present United States tariffs applicable to Japanese goods. The principal effect on the United States of temporary Japanese membership in GATT would be to give Japan the formal right to consultation with regard to United States tariff increases on commodities of interest to Japan. As a matter of policy, we do, however, consult with Japan on tariff matters relating to such products.

Recommendations

1. That you approve United States support of a formula for Japan's temporary membership in GATT under which we and other countries would extend to Japan, in its own right, the present GATT concessions but would make no new tariff concessions.

2. That you authorize discussions of the foregoing recommendation with Congressional leaders, the White House, and interested United States Government agencies, after the Trade Agreements Act is renewed.

394.31/9–1553: Circular instruction

The Acting Secretary of State to Certain Diplomatic Offices[1]

CONFIDENTIAL WASHINGTON, September 15, 1953.

CA–1470. Subject: Eighth GATT Session.

I. Background

A. The Contracting Parties to the General Agreement on Tariffs and Trade (GATT) will open their eighth business session September 17 at Geneva.[2] Approximately 40 items are on the agenda for consideration. This session will relate solely to the business of the GATT and will not be concerned with tariff reductions. Out of the 40 agenda items the following are of principal concern to the United States:

1. Japan's application for provisional accession to the GATT.

2. Possibility of maintaining tariff concessions currently in effect on a firm basis after January 1, 1954 (Article XXVIII of GATT).

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[1] This instruction was sent to the Embassies in Ottawa and Prague, the Consulates in Geneva and Salisbury, and the Legation in Luxembourg. It was drafted by Selma Freedman of the Division of Public Liaison and Charles F. Johnson of the Office of Policy and Plans.

[2] Samuel C. Waugh, Assistant Secretary of State for Economic Affairs, served as chairman of the U.S. Delegation to the Eighth Session; Winthrop G. Brown, Counselor for Economic Affairs of the Embassy at London, was vice chairman. A list of the remaining members of the U.S. Delegation is printed in the Department of State *Bulletin*, Sept. 28, 1953, p. 450.

3. The British preference problem, principally on horticultural items.

4. The complaints against the United States for certain restrictions we have imposed on agricultural imports and United States subsidies affecting exports of certain agricultural commodities.

B. GATT is a multilateral agreement under which the countries which are parties to the Agreement (Contracting Parties) have agreed to various general rules for the conduct of international trade and to specific tariff reductions. It was originally negotiated in 1947. There have been three rounds of tariff reductions (Geneva, 1947–Annecy, 1949–Torquay, 1951) and seven business sessions of the Contracting Parties. There are now 33 Contracting Parties accounting for some four-fifths of the world's trade. Although the United States is a Contracting Party to GATT, Congress has made clear on numerous occasions that it reserves its view on the question whether it would approve United States participation.

C. *Japanese Accession:* For some time Japan has been anxious to accede to the GATT in order to obtain benefits possible only through participation in this Agreement. Prior to acceding to GATT a country ordinarily enters into tariff negotiations with other parties which are its major partners in world trade. Under a commitment made to the United States Congress this past winter by the Secretary, the United States is estopped from entering into full-scale negotiations on tariff reductions until after the President's Commission on Economic Foreign Policy makes its report and new legislation is submitted to the Congress. Japan therefore has requested that it be permitted to accede to GATT on a temporary basis. The preliminary view of the United States, pending final decision after public hearings, has been one of strong support for Japanese accession partly because of the importance of obtaining Japanese cooperation in military security measures, and because of our concern over Japan's unhealthy dependence on United States assistance. The United States position has met with opposition from other countries, particularly the British, but United States-British talks over the past several months have paved the way for temporary Japanese accession at the forthcoming meeting. The final United States position to be taken is subject to public hearings now being held in the United States. At the meeting we hope that a formula can be developed to permit provisional Japanese accession to the GATT.

D. *Extension of Firm Life of Tariff Concessions:* Article XXVIII of the General Agreement provides that on and after January 1, 1954 any Contracting Party may withdraw or modify individual tariff concessions. It is feared pressures will be exerted in various countries to raise tariffs and representatives of several foreign gov-

ernments have indicated that unless this date is extended their governments will be unable to resist pressure to use the Article.

As in the case of Japan, the final United States position is subject to consideration of the results of public hearings currently being held. On the basis of present information, the United States delegation is being instructed to advocate extension of the date from January 1, 1954 to either January 1, 1955 or June 30, 1955 and that no country make changes in existing concessions prior to the change in the date. We would prefer a declaration signed by individual Contracting Parties binding the signers not to invoke Article XXVIII for the extended period, but if this method proves non-negotiable, the United States will sponsor approval of a resolution recommending that each Contracting Party not invoke the Article for a period of either 12 or 18 months.

It is felt that extension of the date would help stem the growing feeling of a number of countries that the United States Government is moving toward increased protection for domestic industries. Extension also is consistent with the President's policy of maintaining the stability of the general tariff situation during this interim period of study of United States foreign economic policy. Considerable international support exists for extending the date. Among others, the Chairman (a Norwegian), France, Canada and Cuba have indicated support for extension. Australia and New Zealand have implied they would like some leeway to raise tariffs on some items.

E. *United Kingdom Preference Problem:* Under the General Agreement, the United Kingdom is committed not to increase any tariff preference which exists in favor of Commonwealth countries. The United Kingdom has been pressing for a formula under which it would be free to raise its duties on certain items not now bound and imported from outside the Commonwealth, principally horticultural items, without placing a duty on the same class of products which enter free of duty from the Commonwealth. Although consideration of such a matter would be preferable in the context of a general review of the Agreement, protectionist pressures in the United Kingdom have forced the British to request its consideration at this meeting. The United States and the United Kingdom have explored a formula which might meet both the British requirements for a waiver and the limitations desired by the United States. However, the formula may not be acceptable to a number of Western European countries.

F. *Complaints Against United States Restrictions:* The Agenda also includes consideration of complaints against United States restrictions on imports of dairy products, dried figs, and shelled filberts, United States subsidies affecting exports of oranges, raisins

and alleged dumping of almonds. The United States delegation will attempt to prevent acrimonious debate by presenting facts in each case.

G. *Other Matters:* It is also expected that consultations will be held with certain of the countries attending the meeting on the continued application of balance of payment import restrictions.

It is expected that the meeting will thoroughly examine the first annual report of the European Coal and Steel Community.

Other Agenda items include consideration of two proposals for new methods of multilateral tariff reduction; a method of valuation for customs purposes; consular formalities; nationality of goods; Italian special treatment for Libyan products; South African-Southern Rhodesian customs union; Nicaragua-El Salvador free-trade area; Brazilian internal taxes; Greek import taxes; discrimination in transport insurance; and a convention on importation of samples and advertising material.

II. Treatment

We should give good news coverage to meeting, taking our cue from the United States delegation. If provisional Japanese accession to GATT is approved, give favorable action heavy play in output to Japan but only modest play to other areas. Feature any agreements reached on the extension of the firm commitment date beyond Jan. 1, 1954, and on British preferences. Emphasize also all other aspects of cooperative action resulting from the meeting. In background stories and in original and selected comment, demonstrate United States support for the principles and objectives of GATT and review GATT accomplishments. Cite the success of GATT in resolving difficulties among the participating nations.

Further guidance will be provided if circumstances warrant.

LOURIE

394.31/9-1853: Telegram

The Acting Consul General at Geneva (Oakley) to the Department of State

CONFIDENTIAL PRIORITY GENEVA, September 18, 1953—11 a .m.

99. Eyes only from Waugh. Personal to the Secretary. We have been informed that at this late date Karl Loos, Solicitor, Department of Agriculture is objecting to proposal that tariff commitments agreed to by US now be extended for additional period of year or 18 months pending review of policies by US and other countries.

In my judgment failure of Eisenhower administration place itself squarely on record in support standstill arrangements on tariffs will (a) Completely destroy confidence of other countries in good faith of administration in entering upon genuine study of economic policy through our economic policy commission. (b) Remove real prospect we now have of general international agreement at this meeting on tariff truce. (c) Nullify influence US delegation on other major issues this Conference especially admission Japanese to GATT.

And such position by US would be particularly embarrassing in view President's message to CPs and statement that you saw which I will be making to CPs in an hour.[1]

This matter comes up in the conference on Monday, September 21. It is of the utmost importance that the US delegation be instructed immediately to support the extension of firm tariff commitments for period of study ahead.

Urgently recommend you take this matter up with Secretary of Agriculture[2] and with President if necessary.[3]

OAKLEY

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[1] Assistant Secretary Waugh's address before the Contracting Parties, which conveyed President Eisenhower's message to the session, is printed in the Department of State *Bulletin*, Oct. 5, 1953, pp. 447–449.

[2] Ezra Taft Benson.

[3] The Department responded in telegram Gatt 16 to the Consulate at Geneva, dated Sept. 19, 1953, that as a result of consultation with the White House, the U.S. Delegation would be authorized to announce U.S. support both of Japanese accession to the GATT and the extension of tariff concessions under Article XXVIII if the delegation felt that further delay in announcing these positions would prejudice the success of the negotiations. (394.31/9–1953)

Editorial Note

On September 21, 1953, the Trade Agreements Committee made formal recommendations to the President regarding the issues of Japanese accession to the GATT and the extension of tariff concessions under Article XXVIII. With regard to Japanese membership in the GATT, the Committee recommended that the United States seek agreement from the Contracting Parties for temporary accession based on the extension of GATT tariff concessions to Japan. In return, Japan would agree to accept the general provisions of the Agreement and to make additional concessions, such as promising not to increase a portion of its tariff schedule. With regard to Article XXVIII, the Committee recommended that the date governing the life of the existing tariff schedules in the GATT be extended "not less than 12 nor more than 18 months" beyond the existing date of January 1, 1954. The memorandum noted that the repre-

sentative from the Department of Agriculture dissented and that the Tariff Commission member abstained from the recommendation. (Memorandum by the Chairman of the Trade Agreements Committee to the President, September 21, 1953, 394.31/9-2353) Both recommendations were delivered to President Eisenhower under cover of concurring memoranda from Under Secretary of State Smith, dated September 21, 1953, and received President Eisenhower's approval on September 23, 1953.

394.31/10-2453

The Acting Chairman of the United States Delegation to the Eighth Session of the General Agreement on Tariffs and Trade (Brown) to the Director of Foreign Operations in the United Kingdom (Gordon)

RESTRICTED GENEVA, October 20, 1953.

Subject: Conference with Randall Commission [1]

DEAR LINC: I suggest for the Ambassador's [2] consideration the following points that he might care to make in his presentation to the Randall Commission at its Paris meeting on November 9.

1. To stress that extent to which movement by other countries toward convertibility and multilateral trade and, particularly, the key country of Britain, depends upon policy decisions by the U.S.

We hear this theme continually in London, and it has been a recurrent motif throughout this entire meeting of the GATT.

2. To stress the extent to which this is a problem of confidence and psychology.

These countries not only want the U.S. to go forward; they want concrete assurance that it will not go backward.

The U.S. customs restrictions, agricultural restrictions and Buy-American Act are bad enough, but what is as bad—and in my opinion worse—as a barrier to trade is the psychological attitude that has grown up around them in the minds of European and other countries. There is a combination of feeling that to try to get into the U.S. market is impossible and a fear that, even if you succeed, further barriers will then be raised against you. There is no real

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[1] The Randall Commission, or the Commission on Foreign Economic Policy chaired by Clarence B. Randall, Special Consultant to the President, was set up by President Eisenhower to conduct an extensive review of U.S. foreign policy. The Commission, composed of members of Congress and private citizens, published its *Report to the President and the Congress* in January 1954. For further documentation on the Commission, see pp. 49 ff.

[2] Winthrop W. Aldrich.

confidence that we genuinely mean to accept greater competition from imports.

This attitude of mind inhibits action even by the energetic exporters. It provides a convenient alibi for those who do not particularly want to try to compete.

Our need is somehow to inspire confidence and hope in the energetic, and to remove the alibi of the lethargic. To my mind this is the most important element in the picture, even more important probably than the actual measure of tariff reductions we might make or restrictive laws that we might modify or abolish.

Moreover, now is the time, the opportunity par excellence, for us to do what is necessary in this respect, for we are now at the beginning of the first Republican Administration in twenty years. If a broadly based, forward-looking program could be adopted by a large majority in a Republican Congress, it would go far toward meeting the need.

3. Two or three things would be indispensable to create this impression. The first would be that we should abandon the emphasis we have hitherto placed upon strict reciprocity in tariff bargaining. If we could, for example, announce that except for a few specified cases, dictated perhaps by needs of national security, there would be no tariff in the U.S. over 50%, that would make a drastic impression and would be something that I would think would be supported by most intelligent people in the U.S. We could then bargain our moderate and low rates against other countries' moderate and low rates in the normal way.

Tariff negotiation on the basis of straight reciprocity is outmoded in other countries as well as with us. That is the basis of the whole long discussion which has gone on between the high and low tariff countries in Europe and which has culminated in the so-called "French Plan" for tariff reduction which has been worked out by experts in the GATT, a copy of which is enclosed. The essence of this plan is that the bargain would be that each country would agree to reduce its tariffs by a certain percentage over a period of time. The percentage would be allocated by groups of imports in order to give flexibility for protection in necessary cases. Countries with tariffs below a certain level would have to do no more than agree not to raise their present rates. The reciprocity would come not in the action on individual items, but on the overall action by each country in return for comparable overall action by the others.

I do not think it is feasible to eliminate the "escape clause",[3] but I do think it would be feasible and consistent with the spirit of the

[3] For background on the "escape clause" in U.S. trade agreements legislation, see the appropriate section of the Metzger memorandum dated Feb. 25, 1953, p. 151.

"escape clause" to say that if action under it has not been taken within a limit of say three years, the rate must thereafter remain fixed. This would give plenty of time for industries to adjust to reduced rates and to see what the effect of the adjustments would mean. It would also give confidence to exporters that after a certain period at least they could proceed with confidence.

A beginning should be made on a complete review of our tariff classifications. These are the real source of customs delay because of the litigation to which they lead.

The Buy-American Act should be repealed.

The GATT should be approved by the Congress.

And finally, some formula should be found whereby the operation of U.S. price support programs for agricultural commodities would not result in total exclusion of imports.

This would not mean drastic reduction of our tariff except in a few cases. It would not wholly abandon our traditional manner of tariff negotiation. It would not abandon our "escape clause".

Doubtless the program should also include contribution, through the Fund or otherwise, to a stabilization fund.

To sum up, there seem to me to be two essential elements that will have to be included in any U.S. program which will meet the need. The first is that it have an element of unilateral contribution by the U.S. to the solution of the great world trade imbalance. The second is that it be so drawn and so adopted that it convinces other nations that our intention to accept more imports is real and that whatever steps we do take will be lasting. It would to my mind be better to take modest steps in such an atmosphere than to take bigger steps which have a larger element of doubt as to their duration.

The unilateral element is very important because all these countries look at the comparative size and power of the U.S. and at the tremendous imbalance which has existed in dollar trade for so many years, and in the light of this state of affairs the current approach of precisely balanced quid pro quos seems to them futile.

Sincerely yours,

WINTHROP G. BROWN

394.31/10-2453

The Acting Chairman of the United States Delegation to the Eighth Session of the General Agreement on Tariffs and Trade (Brown) to the Chairman (Waugh)

RESTRICTED GENEVA, October 24, 1953.

DEAR MR. WAUGH: The conference is scheduled to end today unless something unforeseen happens. I think it is fair to say we can report "mission accomplished".

It has been agreed that the life of the schedules will be prolonged for another eighteen months. As far as we know New Zealand is the only country whose signature to this declaration is doubtful. Thus the objective of continued tariff stability during the period of review will have been achieved.

The Japanese have been invited to participate in the work of the Contracting Parties by the affirmative vote of 26 contracting parties. The abstentions were the five Commonwealth countries, Czechoslovakia and Burma. After the vote the Chairman asked the Japanese representative to take his seat at the table, and it was quite a dramatic moment when Ambassador Matsumoto[1] rose from the observers' table in the middle of the room and walked to a place which was then prepared for him at the regular conference table. There was a sense that this small action symbolized an event in history.

The signing of the Declaration committing governments to govern their commercial relations with Japan by the provisions of the GATT takes place this afternoon.[2] I will add a post script to this letter telling you the result.[3] I am convinced that there will be more signatures to the Declaration because of the fact that we persisted so long in holding to the one stage. This forced a number who were waivering to take the decision to sign the Declaration which they might not have made had they had the easier path open to them from the beginning.

The British application for a waiver under Article I reached a complete deadlock until Wyndham White[4] found a way out at the eleventh hour. The solution finally reached is to my mind far more satisfactory from our point of view than the original proposal to which we were prepared to agree. It makes crystal clear that the only thing the waiver does is to permit widening of preference mar-

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[1] Shun-ichi Matsumoto, Japanese Ambassador to the United Kingdom, 1952–1955.

[2] The text of the "Declaration of 24 October 1953" is printed in *Basic Instruments and Documents*, Second Supplement, January 1954, pp. 31–32.

[3] Not found in Department of State files.

[4] Eric Wyndham White, Executive Secretary of the General Agreement on Tariffs and Trade.

gins where no diversion of trade is likely to take place, and requires that the action taken be reversed if it does in fact take place. It also gives the Contracting Parties a veto in cases where they think that diversion will result.

This whole episode was very healthy because as it finally came out it demonstrated that there is real opposition to increase of preference as a matter of principle, and secondly because it showed that the smaller countries are not just a rubber stamp for the actions of large ones in these meetings, and given a good case about which they care they can exercise a great influence.

On dairy products we achieved our main objectives of avoiding the issue of the legality of our restrictions, avoiding general discussion of our agricultural policy, and of minimizing retaliation against us. I am convinced that the course we followed was right, and I hope that the decisions taken here did not cause too much trouble for the Department with Agriculture.

We were also able to exercise considerable influence in making the consultations with the Schuman Plan[5] countries about the terms of their waiver into a real and substantive operation rather than a very formal and legalistic discussion limited to the question of strict compliance with the literal terms of the waiver. The Schuman Plan countries and the High Authority, particularly the latter, had a very stand-offish attitude at first, and even after the consultations were well under way and going satisfactorily, it was only at the last moment that we persuaded them not to request a paragraph in the Working Party report to the effect that next year's discussion on their report would be limited strictly to the terms of the waiver. As it was, however, the whole thing went off very well, and I think both sides are pleased.

Throughout the whole meeting ran the undercurrent of feeling which you mentioned in your letter to the Secretary[6] that the future of this and other efforts to liberalize world trade depended essentially on the decisions of the United States. After five weeks of working here, I am more impressed than ever by the weight of the responsibility which rests upon us in making the decisions as to our future foreign economic policy and the magnitude of the opportunity which we have to influence the course of what actually happens. Because, leaving aside the under-developed countries, whose role in the matter is not as yet relatively very important, the

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[5] French Foreign Minister Robert Schuman on May 9, 1950, proposed the placing of French and German coal and steel under a common high authority. After many weeks of negotiations which included other European nations, the Schuman Plan evolved into the European Coal and Steel Community. For documentation concerning U.S. policy toward the Schuman Plan and ECSC, see volume VI.

[6] Not identified.

others will come along with us if we produce anything reasonably sensible.

In this connection you may be interested in copies of two letters I wrote Linc Gordon in connection with the visit of the Randall Commission to Paris.[7] Will you show these to John Leddy when you are through with them.

The Delegation performed with its customary competence. Two members, however, need special mention. The first is Walter Hollis[8] who worked indefatigably throughout the whole conference and was consulted by every member of the Delegation on almost every issue which came up. His knowledge and good judgment were completely invaluable. Moreover, he not only acted as counsel to our Delegation but in effect as counsel to the Secretariat, and spent a great deal of time with Wyndham White and Royer working out the basic documents which the conference considered. I have had the most appreciative comments from them about his work.

The other is Norwood.[9] Not only did he handle a working party which turned out to be much more difficult than we expected it would be very competently, but he contributed sound good judgment in the Delegation discussions on most other issues. Moreover, he performed the indispensable function of keeping track of everything substantive that was going on and seeing that we all did our work when it had to be done. Finally, he has handled the whole matter of the records and report, a job which it is so distasteful to do at the time and so invaluable to have had well done when the next conference rolls around.

I would also like to express my appreciation for the complete support and very prompt service which we received from the Department and the help that other Embassies around the world gave us on the Japanese issue. It is very good for a Delegation's morale to have their telegrams promptly answered and their judgment normally respected.

Peggy and I very much appreciated the note you wrote us from Beyrouth. Getting to know you and Mrs. Waugh was one of the nicest things about what has been for me a very worthwhile and rewarding five weeks. I am very grateful to you for the opportunity to do this job.

Very sincerely,

WIN BROWN

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[7] One of the letters, dated Oct. 20, 1953, is printed *supra*.

[8] Assistant to the Legal Adviser, Department of State.

[9] Bernard Norwood, Office of Economic Defense and Trade Policy, Department of State.

Editorial Note

Additional documentation on the Eighth Session of the Contracting Parties to the General Agreement on Tariffs and Trade is in Department of State file 394.31 and in the GATT files, lot 63 D 134, boxes 268–270 and lot 66 D 209, boxes 454–458. The texts of the decisions, resolutions, declarations, and working party reports adopted by the Contracting Parties at the session are printed in *Basic Instruments and Selected Documents*, Second Supplement, January 1954. For the text of Department of State Press Release 598, dated October 27, 1953, summarizing the results of the session, see Department of State *Bulletin*, November 16, 1953, pages 677–680. For a letter from United States Delegation chairman Waugh to Secretary Dulles, dated March 8, 1954, outlining the major aspects of the Eighth Session, see page 171.

811.20/11-1454

Memorandum of Conversation, by Paul E. Callanan of the Agricultural Products Staff

CONFIDENTIAL [WASHINGTON,] January 14, 1954.

Subject: Disposal of Surplus Dairy Products At World Market Prices

Participants: Agriculture: Messrs. Morse, Davis, Gordon, Roberts, Richards, Burmeister, Whipple, Ioanes, Wells [1]
State: Messrs. Waugh, Kalijarvi, Raynor, Linville, Frank, Barger, Callanan [2]

Mr. Davis conducted the meeting and began by outlining once more Agriculture's program to offer surplus dairy products for export at world market prices.[3] He stressed the following points:

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[1] Representatives from the Department of Agriculture are: True D. Morse, Under Secretary of Agriculture; John H. Davis, Assistant Secretary of Agriculture; Howard H. Gordon, President of the Commodity Credit Corporation; Richard H. Roberts, Director of the Trade Programs Division; Preston Richards, Vice President of the Commodity Credit Corporation; Gustave Burmeister, Assistant Administrator for Market Development; Clayton E. Whipple, Acting Administrator of the Foreign Agricultural Service; Raymond A. Ioanes, Administrative Officer of the Foreign Trade Programs Division; and Orvis V. Wells, Administrator of the Agricultural Marketing Service.

[2] Representatives from the Department of State, in addition to Assistant Secretary Waugh, Deputy Assistant Secretary Kalijarvi, and Linville, are: G. Hayden Raynor, Director of the Office of British Commonwealth and Northern European Affairs; Isaiah Frank, Adviser to the Director of the Office of Economic Defense and Trade Policy; Harmon H. Barger, Chief of the General Policy Branch of the Commercial Policy Staff; and Paul E. Callanan, member of the Agricultural Products Staff.

[3] Representatives from the Departments of State and Agriculture had met previously on Dec. 22, 1953 to discuss the surplus disposal issue. Several of the points

Continued

1. An opportunity must be created for private operators to find markets and make deals involving dairy products, as they have successfully done in other commodities.
2. Agriculture had no desire to beat world market prices down.
3. The fact that no offerings have been made for the past year is the best evidence foreign countries could have of our consideration for their welfare.
4. Agriculture must have some program to avoid Congressional criticism. There was also the danger that Congress might seize the initiative and pass mandatory legislation which would have serious effects on other countries.
5. There was really nothing new about this proposal, they merely wanted to add dairy products to the present list of commodities available for export.

Mr. Waugh said he did not see why the program was so urgent that a decision had to be made almost immediately. He asked what advantage there would be in view of the contention that the program would not move any substantial quantities of the surplus. Mr. Gordon said any delay would render the program futile. This was the low point in the production cycle in Western Europe, and markets might be available now which would be unavailable later. Some of the stocks on hand were a year old now and a year and a half was as long as they could be held without serious deterioration. It was difficult to rotate stocks as they were marked with brand names.

Mr. Raynor pointed out that a great deal of harm could be done to our relationships with countries in Western Europe by any disposal program which injured their trade. He stressed the importance of trade in dairy products to the economies of these countries and the fact that the United States was pressing for larger defense commitments and limitations on trade in strategic items with the Soviet Bloc. The continued cooperation of these countries was essential to the success of NATO, EDC, and other international undertakings important to the United States. He also mentioned that Vice President Nixon on his return from the Far East had stressed the serious political repercussions of what the United States did in the economic field and urged that this be constantly kept in mind when we considered specific actions affecting other countries.

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listed in this memorandum had been brought up at the earlier meeting (memorandum of conversation, Dec. 22, 1953, 811.312/12–2253). Study of the problem of agricultural surpluses was simultaneously undertaken in late 1953 and early 1954 by the Cabinet Committee on Agricultural Surpluses created by President Eisenhower to investigate the subject. This interdepartmental group was headed by the Secretary of Agriculture and included representatives from the State and Treasury Departments, the Bureau of the Budget, the Foreign Operations Administration, and the White House. Documentation on the deliberations of this group is in Department of State files 398.03 FAO and 811.20.

Other representatives from State commented on various aspects of the proposed program. The following were the principal points made:

1. The United States was not a significant exporter of butter and cheese in the pre-war period, and it could not be claimed that we were only trying to maintain our position in the markets. By subsidizing sales of dairy products we would displace others from their normal markets and face friendly countries with new competition.
2. Markets for dairy products in Europe were limited and demand already appeared satisfied. The market was so "thin" that the mere announcement of the program might be enough to depress prices, as buyers would be wary of any forward commitments.
3. There is the danger, noted by all the affected countries as their major concern, that if the surplus dairy products do not move at the original offering prices, terrific pressure to lower the prices will develop and may prove to be irresistible.

In the discussion of sales prices, Mr. Davis several times said that the offering prices would be at the median of the range. In previous meetings Agriculture representatives including Mr. Davis had said they would be at or near the top of the range.

Mr. Waugh suggested that all present "sleep" on the proposal over night, and that if it could not be resolved between the two agencies that it be sent to the White House for decision. Mr. Gordon pleaded for a prompt decision and the meeting adjourned.

394.31/3-854

The Chairman of the United States Delegation to the Eighth Session of the General Agreement on Tariffs and Trade (Waugh) to the Secretary of State

CONFIDENTIAL WASHINGTON, March 8, 1954.

MY DEAR MR. SECRETARY: I submit the enclosed unclassified report and supplementary confidential report on the Eighth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, held in Geneva, Switzerland, from September 27 to October 24, 1953.[1] I should like, however, to touch briefly on certain aspects of the session which may be of special interest to you.

The session was one of a series of meetings which started in 1948 and which now take place about once a year. The thirty-odd contracting parties met to deal with trade matters arising out of the operation of the multilateral trade agreement. General tariff negotiations were not a part of the business of this session. The principal agenda subjects were: (a) the application of Japan for provision-

[1] Neither printed. (394.31/3-854)

al accession to the agreement, (b) the extension of the period during which the existing tariff bindings would remain valid, that is, during which they would not be subject to possible renegotiation under special procedures which were scheduled to become operative at the beginning of this year, (c) a request by the United Kingdom for a waiver from the agreement rule binding margins of tariff preference in order to increase certain unbound tariff rates against other parties without also raising the rates against Commonwealth suppliers, and (d) the arrangements for a review of the agreement in 1954 for the purpose of seeing whether, and if so how, it might be revised, including consideration of possible future tariff negotiations.

The main tasks of the United States Delegation were to prevent an unwinding of trade commitments or impairment of the gains already achieved under the GATT, to maintain a sense of momentum and progress in the international work in the trade field, and at the same time to avoid any action which would prejudice the examination of foreign economic policy by the Randall Commission.

I believe that the Delegation was successful in these efforts. Other countries were aware that the United States was re-examining its foreign economic policy and were prepared to maintain the *status quo* until that examination was completed. As I wrote you from Geneva, I and all the members of the Delegation were impressed by the anxiety with which the other countries around the conference table were awaiting the results of the Randall Commission study and the action which the United States may take as a result, and the extent to which they were withholding decisions as to what their own individual policies would be until they knew these results.

The matter of Japanese accession, first requested by Japan in July, 1952, was settled very satisfactorily from the United States point of view. As you know, we have consistently and strongly supported this application. Most of the other countries had been reluctant to have Japan come in except through the normal process of a general tariff negotiation, which of course was out of the question for the time being. It became apparent that although a majority of the Contracting Parties now favored temporary Japanese accession, even without tariff negotiations, we could not get the two-thirds vote in favor of such accession which we believed was politically and psychologically desirable. Therefore, with Japanese concurrence, we developed and supported a two-stage proposal under which Japan would be invited to participate without formal voting in the work of the Contracting Parties until June 30, 1955, and Japan and individual Contracting Parties could agree to apply the rules of the General Agreement to their trade during this period of

temporary participation. This two-stage arrangement was carried by a vote of 27 to none, with the United Kingdom, Australia, South Africa, Southern Rhodesia, New Zealand, and Czechoslovakia abstaining. By the end of the year, 18 countries, including the United States, had signed the agreement to apply the terms of the General Agreement to their trade with Japan.

The attitude of the United States Delegation caused great satisfaction to the Japanese. In contrast, the British position vis-à-vis Japan was significantly damaged, not only because of the substance of the position they took, but because of the rather tactless way in which they handled it. I believe that the British position resulted largely from pressure put on the Government by the Lancashire textile industry which is fearful of Japanese competition in third countries and from a general public apprehension in the United Kingdom of cut-throat Japanese competition, of which there has been some experience in the past.

Australia's objections were principally political. There is great public feeling against Japan in Australia. The Government felt that it had made a number of moves recently toward improving its relations with Japan and did not believe that public opinion would sustain it in taking this additional step so soon.

It was a matter of satisfaction to the United States Delegation that the meeting agreed to extension of the firm validity of the tariff concessions under the agreement for a further period of 18 months, that is, until June 30, 1955, and that this was accomplished without any reservations. We were anxious to have this period extended in order to prevent a possible substantial unwinding of tariff concessions negotiated under the agreement.

One of the most important decisions of the meeting was that in which the Contracting Parties granted a limited waiver to the United Kingdom from the rule which prevents the increase of margins of tariff preference from the level existing in 1947. This was perhaps the most controversial issue in the meeting and was not settled until the very last moment. The outcome was satisfactory to the United States. A solution was found to a very real and extremely difficult problem without doing violence to the principle that tariff preferences should not be increased. Furthermore, a solution was found despite the opposition by the Continental countries as a bloc to the British request. This opposition was significant in demonstrating that opposition to tariff preferences was not an aberration peculiar to the United States, a view heretofore held by the British. The effective resistance of the Continental countries, led by Denmark, also demonstrated the value of the agreement to relatively small countries which have occasion to defend their trade interests from the action of stronger powers.

During the course of the meeting a series of specific trade disputes brought before the Contracting Parties were either settled or moved forward on the road to settlement. The meeting thus again demonstrated the value of the agreement as a means of orderly settlement of international trade disputes and as a forum for discussing problems which might otherwise create difficulties between the Contracting Parties.

Finally, the meeting set the stage for potentially important action in the field of international trade in the near future. This arises from the fact that arrangements were made for reviewing the General Agreement in October 1954.

It became evident at the beginning of the session that there was practically unanimous sentiment that, although the agreement had been generally useful and effective, it had been in effect for six years in a changing world and the time had come to take a hard look at operations under the agreement and also at the terms of the agreement itself to see what revisions and improvements were desirable and necessary.

Since the General Agreement is the only international agreement in the trade field, this means that next October or a few months thereafter there will be a large scale international review of international trade policy rules and practices. The task in that review will be to preserve and strengthen the progress already made and to see what improvements can be introduced. United States policies resulting from the Randall Commission report will be a major factor determining the results of this review.

To confine this review to what will be feasible and profitable will not be easy. There will be many efforts, particularly on the part of underdeveloped countries, for the loosening of some of the basic rules to which the United States attaches importance and for the expansion of the coverage of the agreement, not only into fairly closely related fields such as commodity agreements and restrictive business practices, but into more unrelated areas of full employment and economic development. The main task of the United States in preparing for this review is going to be to see that we have positive and constructive proposals to make, around which support can be mobilized, not only because of their essential desirability but in order to counteract more extreme ideas.

Sincerely yours,

SAMUEL C. WAUGH

S/P-NSC files, lot 61 D 167, NSC 5415 Series

Note by the Executive Secretary of the National Security Council (Lay) to Members of the Council[1]

SECRET WASHINGTON, March 23, 1954.
NSC 5415

DISPOSAL ABROAD OF GOVERNMENT-OWNED AGRICULTURAL SURPLUSES

The enclosed draft statement of conclusions on the subject, prepared by the NSC Planning Board, is transmitted herewith for consideration by the National Security Council at its meeting on Thursday, April 1, 1954. Also enclosed for the information of the Council is a report on the subject prepared for the Planning Board by a working group consisting of representatives of the Departments of State, Defense, Agriculture and Commerce and the Office of Defense Mobilization, assisted by the Central Intelligence Agency.

It is recommended that, if the Council adopts the enclosure, it be submitted to the President with the recommendation that he approve it as guidance, from the standpoint of national security, for all executive departments and agencies concerned with the disposal abroad of government-owned agricultural surpluses. The enclosure does not take into account other domestic, economic or political considerations relating to agricultural surpluses.

JAMES S. LAY, JR.

[Enclosure I]

SECRET WASHINGTON, March 23, 1954.

DRAFT STATEMENT OF CONCLUSIONS ON DISPOSAL ABROAD OF GOVERNMENT-OWNED AGRICULTURAL SURPLUSES

1. The United States should consider offers from other governments or private traders for disposal abroad of government-owned agricultural surpluses, on a case-by-case basis.

2. The following paragraphs provide guidance, in such case-by-case consideration, from the standpoint of the national security. They do not take into account other domestic, economic, or political considerations relating to agricultural surpluses.

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[1] Copies of NSC 5415 were sent to the Secretaries of the Treasury, Commerce, and Agriculture; Director of the Bureau of the Budget; Chairman of the Council of Economic Advisers; Chairman of the Joint Chiefs of Staff; and Director of Central Intelligence.

3. *Government Trading.* Trading on a government-to-government basis is a departure from private enterprise theory, is inconsistent with U.S. commercial policy and practice, and is warranted only where there are overriding advantages.

4. *Disposal to Friendly Countries.* As a general rule, in disposal abroad of government-owned agricultural surpluses, the United States should attempt to dispose of such surpluses to friendly countries in exchange for (a) dollars or gold, (b) currently needed strategic materials, (c) non-perishable materials useful to the United States (whether currently needed or not), or (d) "soft" currencies; provided that no material injury is done to the trade of friendly countries, and that a "soft" currency, if accepted, would be likely to be useful to the United States.

5. *Disposal to Soviet Bloc Countries.*

a. On disposal, either directly or indirectly, of government-owned agricultural surpluses to the USSR or its European satellites, which should be made at not less than world prices:

(1) There would be a direct security advantage to the United States in receiving the most urgently needed strategic materials in barter for nonstrategic agricultural surpluses. This direct security advantage should be weighed against the injury that such a barter might do to the trade of friendly countries or to development of free world sources of such strategic materials.

(2) There would be no direct security advantage to the United States in receiving other nonperishable materials useful to the United States (whether currently needed or not) in barter for nonstrategic, agricultural surpluses. There would be a security disadvantage if such a barter resulted in material injury to the trade of friendly countries.

(3) There would be a security advantage to the United States in receiving dollars in exchange for agricultural surpluses, so long as such exchange did not result in *material* injury to the trade of friendly countries.

b. The receipt by the Soviet and European satellite peoples of U.S. agricultural surpluses in amounts which are small compared to Soviet Bloc production would, in itself, involve no clear security advantage or disadvantage to the United States.

6. *Emergency Gifts or Loans.* The Executive should be in a position, on the shortest possible notice, to make available, by gift or loan, agricultural surpluses to a country suffering from conditions such as famine, disaster, and unrest, where such action would promote the security interests of the United States.

[Enclosure II]

SECRET WASHINGTON, March 9, 1954.

WORKING GROUP REPORT ON DISPOSAL ABROAD OF GOVERNMENT-OWNED AGRICULTURAL SURPLUSES

I. PROBLEM

1. Should the United States seek to exchange Government-owned perishable surplus agricultural products on a barter basis with the U.S.S.R. or its satellites in Europe* in exchange for non-perishable materials useful to the United States on some reasonable basis of price?

II. INTRODUCTORY

2. The U.S. Government, under its price-support programs for agricultural products, has accumulated burdensome surpluses of certain farm products. The present disposal program offers little prospect for reducing substantially the size of these stocks either by disposals in the United States or by exports to free world countries. In view of prospective losses from deterioration, and confronted with recent export license applications to ship some of these Government-owned surplus stocks to the Soviet Bloc, it becomes important to examine whether such exports present problems from the viewpoint of our economic defense policy and other interests.

3. The problem posed by the NSC Planning Board requires consideration of the following major questions: (a) What are the "perishable" Government-owned surplus agricultural products and the problems presented by their disposal to the Soviet Bloc? (b) What are the "non-perishable" materials which are probably obtainable from the Soviet Bloc and are needed by the United States? and (c) What are the advantages and disadvantages of resort to barter as a means of disposal of these surpluses?

4. In order to place the NSC problem in proper perspective, it is necessary to examine the problems involved in export sales to the Soviet Bloc of such surpluses for dollars or gold.

III. SUMMARY OF PRINCIPAL FINDINGS

5. Dairy products (butter, dried milk and cheese) are the principal "perishables" among the Government-owned surplus stocks of farm products. On February 24 these dairy stocks were valued at $393 million, with butter representing $191 million or 284 million

*In this paper the words Soviet Bloc or Bloc refer to the USSR or its satellites in Europe. [Footnote in the source text.]

pounds. However, not all these stocks require urgent disposal at this time.

6. Exports to the Soviet Bloc may enable the avoidance of some loss which would arise from deterioration of Government-owned perishables which do not appear to be disposable in a better way under the current program.

7. Opportunities for disposal by way of barter in exchange for Bloc non-perishables are quite limited since (a) the U.S. need for any materials is not great enough to justify special concessions to get them from the Soviet Bloc; (b) the list of durable materials from the Bloc which the U.S. could use advantageously is extremely limited, and of these only platinum is believed to be available for export from the Bloc; (c) the acquisition of materials other than those on this list, such as manganese, is not considered feasible at this time.

8. Barter, especially between Governments, is contrary to U.S. commercial policy interest generally, and should not be encouraged except in unusual circumstances.

9. Disposal of perishable surpluses to the Soviet Bloc for dollars or gold should be given serious consideration because: (a) More perishables may be disposed of in this manner than where durable goods are required in exchange; and (b) cash transactions through private trade channels are the most effective methods of carrying on international trade and are consistent with U.S. policy and practice.

10. The main difficulties involved in proposed exports of Government-owned perishable surplus stocks of farm products to the Soviet Bloc, whether for dollars, gold, or durable goods, are: (a) Subsidization in terms of the relationship of the export price to Government support level and world price, (b) adverse public reaction, and (c) possible adverse effects on friendly countries which rely on trade in such commodities with the Bloc.

11. The most troublesome of these is adverse public reaction which is related to the subsidization aspect. This problem is particularly difficult in the case of butter because of the public consciousness of the problem. Nevertheless, barter would not avoid the necessity of facing up to these problems, nor would it successfully mask the true prices for the commodities involved.

12. The sale of perishables to the Soviet Bloc would dispose of only a small part of the U.S. Government-owned surplus and a number of difficulties are involved in such transactions. If, in spite of these considerations, disposal of some of the agricultural surplus commodities is deemed of sufficient importance, it is concluded that:

IV. CONCLUSIONS

13. The Government should be prepared to consider proposals received directly from the Soviets, through private trade channels or through other governments, which would result in the disposal of surplus farm perishables to the Soviet Bloc in return for dollars, gold, or the commodities on the list of acceptable materials.

14. The desirability of any particular transaction can only be determined after a careful study of the pertinent facts.

V. BACKGROUND

15. U.S. trade with the Soviet Bloc in relation to total U.S. trade is illustrated by the following table:

(In millions of dollars)

	U.S. Exports to Sov-Bloc	*% of Total U.S. Exports*	*U.S. Imports from Sov-Bloc*	*% of Total U.S. Imports*
1938	$147.	4.8	$ 93.	4.7
1947	$339.9	2.220	$108.2	1.880
1952	$1.1	0.007	$39.6	0.370
1953 (11 mos.)	$1.8	0.013	$33.9	0.340

16. Since 1938 U.S. exports to the Soviet Bloc, except under lend-lease during the war and as a result of the current embargo on strategic goods, have consisted predominantly of machinery and vehicles. Perishable commodities have never figured significantly in U.S. commercial exports to the U.S.S.R., but Poland and some of the Eastern European countries have, from time to time, been fairly significant importers from the U.S. of cheaper grades of edible fats, such as lard.

17. As shown by attached Table III for the years 1938 and 1947, the only non-perishable items generally entering into U.S. imports from the U.S.S.R. are chrome and manganese ore and platinum-type metals. No non-perishable materials of significance have been imported into the U.S. in the past from Soviet Bloc countries other than the U.S.S.R. Furs have generally accounted for about 50% by value of U.S. imports from the U.S.S.R.

18. During 1953 principal U.S. exports to the Bloc comprised tobacco, cigarettes, wool rags, and hops. Principal U.S. imports from the Bloc were hams and bacon, furs, fertilizer, crude feathers, photographic goods, bristles, and palladium.

19. In general, U.S. policy permits the approval of exports to the Soviet Bloc in Europe of commodities which are not strategic and not in domestic short supply. The perishable agricultural products dealt with in this paper fall in this category.

20. In general, U.S. import policy does not impose any special restrictions on imports from the Soviet Bloc other than Communist China, except for certain goods produced by slave labor.

21. Dairy products (butter, dried milk and cheese) are the principal perishable items, i.e., would suffer comparatively rapid deterioration. As of February 24, the total cost to the Government of these dairy products held by CCC was $393,127,000. Butter represented $190,589,000 or 283,699,000 pounds. Not all dairy products' stocks represent an urgent disposal problem at this time since only a portion is in danger of early deterioration. There may be, from time to time, marginal quantities of other agricultural products held by the Government which are in danger of spoilage and, therefore, should be considered perishable. Practically all the stocks held by CCC, now inventoried at $2.7 billion, involve a prospect of loss through natural deterioration, rotation, scarcity of adequate storage facilities, cost of upkeep, emergencies, etc. It is not possible at this time to estimate accurately the size of the "disposal" problem arising from prospective economic loss through deterioration, but it involves many millions of dollars.

22. Of the Government-owned farm products, the Bloc countries have shown the greatest interest in butter and cottonseed oil. They also appear interested in linseed oil, tallow, wheat, tobacco, lard, grease and pure cellulose.

23. The extent of the Bloc's real need for or intent to purchase these materials is not known. However, it is generally accepted that per capita consumption of fats and oils in the Soviet Bloc is low and the Bloc could absorb large quantities of these commodities.

24. In 1953, the Soviet Union bought more than its customary quantities of edible fats from other countries. Exports of dairy products by free world countries (Denmark, Netherlands and Sweden) totalled 32.1 million pounds worth $15 million in 1952, and 13.8 million pounds worth $7 million in the first half of 1953. Recent Bloc contracts for butter from free world sources involved 91.3 million pounds. (See attached Tables I and II.) It is not known whether the Soviet Union would continue this scale of procurement and buy from the United States in addition thereto or whether the U.S.S.R. would take American perishables in lieu of customary purchases from other sources.

25. U.S. exports of certain of these farm products might have adverse economic and political impact on those countries which car-

ried on export trade in such commodities. From the viewpoint of impact on friendly countries and consistency with U.S. commercial trade policy, such exports would be desirable if they did not contain elements of subsidy or, if they were subsidized, provided they did not impinge on normal commercial markets. These problems would arise particularly if the export price is less than the support level or the world price. Where such problems exist, prior consultation with the friendly governments concerned would be desirable.

26. From the viewpoint of adverse public reactions, at home and abroad, which might arise from such exports, extremely difficult estimates are required, which, in the ultimate analysis, can properly be made only at the Cabinet level.

27. From the viewpoint of national security, approval of some exports to the Soviet Bloc of Government-owned perishable surplus farm products would not raise any significant security problems. The proposed export of 5000 long tons of tallow worth $784,000 to Poland, which was approved in September 1953 by the Department of Commerce, is illustrative of the general line of approved exports to the Soviet Bloc involving open market items which are not strategic and not in short supply. Other security considerations are:

a. It is not possible to determine clearly the motivation of the Soviet offers for U.S. perishable surplus farm products, aside from the following facts: (1) There is a shortage of edible fats and oils in the Soviet Bloc generally; and (2) Soviet purchases of fats and oils in the West have probably drained off most of the available export surpluses.

b. A study of the probable psychological and political impact on the Soviet and satellite populations of the proposed barter transactions does not disclose any clear advantage or disadvantage to either the United States or the Soviet Bloc. (See attached Intelligence Estimate.)

(1) On the one hand, approvals of these exports might confront the Kremlin with a serious dilemma, i.e., either to continue to rely on the West for future supplies of farm supplies to satisfy the whetted appetites of their subject peoples, or to divert some of their energies from wartime production activities to peacetime activities to provide needed farm products for their peoples.

(2) On the other hand, such exports might tend to alleviate current distress and unrest among the peoples behind the Iron Curtain, to lessen their resistance to strict Kremlin rule, and to weaken the Allied strategic trade control system. (However, these arguments were taken into account in classifying these farm products as non-strategic.)

VI. NON-PERISHABLE MATERIALS AVAILABLE FROM SOVIET BLOC AND NEEDED BY U.S.

28. The U.S. is not in a position which requires it to rely on procurement from the Soviet Bloc of any materials, non-perishable or perishable.

29. There is, however, a limited list of materials which could be used advantageously in the United States, as follows:

Asbestos (strategic grade)	Nickel
Beryl	Platinum
Columbite	Selenium
Mica (moscovite block and film)	Tantalite

In addition, materials of interest to the AEC and other Government programs (such as titanium) would be acceptable.

30. Of the above materials, only platinum is known to be available from the Bloc. The U.S. stockpile is now 200,000 ounces (valued at about $18. million) short of its goal for platinum, much of which might be procured from the Bloc without adverse effect on free-world producers. It is not known whether the Bloc would be willing to supply any of the other materials listed above.

31. Manganese and chrome are not on the above list despite the fact that they are known to be available from the Bloc. The U.S. stockpile goals for these materials are now within reach of full achievement through supplies under contract with non-Soviet sources. Some of these sources were developed to replace Soviet Bloc supplies.

32. Other materials, including manganese and chrome ore, are currently being offered by the Bloc in trade agreements with Western countries. However, their acquisition by the U.S. Government at this time is not considered feasible. U.S. and free world markets cannot now absorb these materials without probable serious harm to producers in the U.S. and in friendly countries, and therefore such acquisition should be contemplated only if an adequate means for holding such materials off the market under appropriate safeguards is available. The strategic stockpile cannot be considered for this purpose unless the procurement program is expanded, which requires the establishment of new goals and securing additional appropriatons for procurement of any magnitude. Insulation of these acquisitions under authority other than the stockpile involves complex problems of policy. Moreover, the potentially depressing effect of such acquisitions on future production in the free world cannot be dismissed, even if such problems are solved.

33. In appraising the capability of the Soviet Bloc to deliver significant quantities of non-perishable materials which might be of

interest to the United States, the following were not considered: traditional U.S. imports such as furs, fabricated products, impractical materials like coal, and materials of Communist Chinese origin.

VII. EVALUATION OF BARTER DEALS

34. *Advantages* of barter include:

a. Receipt of a durable for a perishable commodity may provide some economic benefits (particularly, the avoidance of some loss).

b. Receipt of a durable material directly in exchange for a perishable material may be used as an explanation to modify adverse public reaction to the export to the Soviet Bloc of a Government-owned perishable surplus farm product at a price below the support level.

35. *Disadvantages* of barter include:

a. U.S. international trade is normally and most effectively conducted on a cash basis through private trade channels.

b. Barter, especially between Governments, is contrary to U.S. commercial policy interests generally, tends to disrupt the normal course of trade, and should not be encouraged except in unusual circumstances.

c. If encouraged, private American business would probably be able to obtain supplies of strategic and other durable materials from the U.S.S.R. or its satellites through normal trade channels, without involvements of a barter transaction.

d. The Commission on Foreign Economic Policy (The Randall Commission) opposed state trading. It stated (page 31 of printed report):

> "During the transitional period it will be necessary to take every precaution to avoid steps which may lead toward an increase in actual or virtual state trading, lest a pattern of such conduct, seemingly forced by the circumstances of the moment, becomes established as permanent policy. Also, if we are to succeed in moving toward a lessened use of such devices as export subsidies and import quotas, it would be desirable to continue the policy and extend the practice of consulting with interested and affected countries, for the purpose of seeing that such actions of this character as may be required by present law be modified to the extent necessary to ensure that we do not provoke a self-defeating chain of offsetting actions by other countries."

e. Barter, even though providing some additional justification, would not eliminate the necessity of public explanations.

f. Barter would not successfully mask the true prices of the surplus commodities and the durable materials involved. If the transaction in effect involved a subsidized price for the perishables, whether in terms of the quantity of perishables given for the durables received or in the price at which these durables were subsequently disposed, the subsidy would be just as apparent to critics of such a transaction as would a straight sale at reduced prices.

36. From a practical viewpoint, barter would make only a minor contribution to the solution of the problem of disposing of U.S. Government surpluses.

37. The desirability of any particular transaction can only be determined after a careful study of the facts pertinent to each case.

38. Substitution of non-perishable for perishable commodities may, in many instances, merely change the complexion of our problems. Unless the durables are readily consumed in the open market or retained in Government stocks under appropriate safeguards, the adverse economic impact would be transferred from agriculture to another segment of the business community. Examples of possible economic impact are: Competition with production in the U.S. or free world, depressing effect on prices, and interference with private trade.

VIII. EVALUATION OF SALES TO SOVIET BLOC FOR DOLLARS OR GOLD

39. Early in February, the Government announced that "it had been decided as a matter of policy to deny commercial export license applications for the export for cash of United States Government-owned surplus agricultural or vegetable fiber products to Russia or her satellites." It was further stated that "this ban does not preclude study of export license applications for these non-strategic products to the Soviet Bloc if acquired by exporters in the open market and not from the Commodity Credit Corporation surplus stocks."

40. Nevertheless and inasmuch as barter appears to afford only minor benefits within a limited scope of trade opportunities and has other peculiar limitations, it is deemed appropriate to re-examine the problem of such exports for dollars or gold.

41. Cash transactions through private trade channels are traditional, normal and consistent with U.S. international trade policy and practice.

42. Our receipt of some dollars and gold from the Soviets might be considered tantamount to a reduction of a strategic resource to the Soviet Bloc, and would enable us to know the use to which the Soviets have put these dollars and gold.

43. From a practical business viewpoint, exports of such surplus products for cash would enable the Government to get rid of some products which might otherwise deteriorate. Some of the taxpayers' money could be saved. The dollars or gold received in payment might be used, directly or indirectly, to purchase needed materials from friendly countries, or to purchase on a selective basis from the Soviet Bloc such non-perishables as we may desire, without the necessity of developing involved barter transactions and in a manner more consistent with U.S. commercial policy and practice.

44. Cash transactions are not limited in scope and flexibility as are barter transactions, and may enable the disposal of the Soviet Bloc of greater quantities of perishable surpluses.

45. The element of subsidization which gives rise to adverse public reaction is more apparent in a cash transaction.

46. There may be other pertinent aspects of receipts of cash or gold of particular concern to the Treasury Department, which are not considered in this paper.

47. On balance, and depending on the circumstances and facts relevant to each particular transaction which must be reviewed on their merits, some exports for dollars or gold of some Government-owned surplus perishable agricultural products to the Soviet Bloc might be defensible.

[Attachment]

TABLE I

FREE WORLD EXPORTS OF DAIRY PRODUCTS TO THE SOVIET BLOC DURING YEAR 1952 AND FIRST HALF 1953

	1952		*1953 Jan–June*	
	Quantity (millions lbs.)	*Value (millions $)*	*Quantity (millions lbs.)*	*Value (millions $)*
Denmark				
Butter	14.6	7.3	3.5	2.0
Cheese	3.3	1.0	2.4	.8
Milk & Cream (fresh, dried & condensed)	0.2	.03	0.2	.01
Total	18.1	8.3	6.1	2.8
Netherlands				
Butter	5.1	2.4	0.7	.3
Cheese	0.1	.03	0.2	.1
Milk (dried and condensed)	0.02	.1	—	—
Total	5.2	2.5	0.9	.4
Sweden				
Butter	8.8	4.2	6.8	3.7
Cheese & Curd	—	—	—	.1
Milk & Cream (dried, evap., condensed)	—	—	—	.02
Total	8.8	4.2	6.8	3.8

Note: Export data for 1952 and for the first half of 1953 do not list butter as an export item to the Bloc from New Zealand and Argentina. Australia data shows none in 1952, but for January–June 1953 5,000 lbs. of butter valued at $3,000 is reported as exported to China. Data for Uruguay is not available.

[Attachment]

TABLE II

RECENT SOVIET BLOC PURCHASE CONTRACTS FOR BUTTER FROM FREE WORLD

Contract Country	*Delivery Period Covered*	*Quantity involved (Millions of lbs.)*
Argentina	9/53–12/53	11.0
Netherlands	n.r.	29.8
Denmark	7/53–7/54	24.3
Australia	Delivery by end of Nov. 1953	4.4
New Zealand	n.r.	15.7
Urguay	Cal. Yr. 1953	6.1
Total		91.3

n.r.—not reported.

[Attachment]

TABLE III

PRINCIPAL COMMODITIES ENTERING INTO U.S.-SOVIET BLOC TRADE IN 1938 AND 1947 ($1,000)

	1938	*1947*
U.S. Exports to Bloc:		
Machinery and vehicles	66,340	196,105

	1938	*1947*
Raw cotton	13,083	6,264
Copper and products	8,973	2,409
Iron and steel products	6,725	15,922
Chemicals	1,869	10,285
Scientific instruments and supplies	1,150	8,866
Fats and oils	525	10,030
Grains	129	36,029
Wool rags	8	775
Dairy products	—	5,015
All other	47,796	48,200
Total	146,598	339,900
U.S. Imports from Bloc:		
Furs	16,932	44,047
Chrome ore	—	8,956
Manganese ore	2,662	7,723
Textiles	9,445	4,344
Hams	8,957	—
Glass ceramics and beads	4,524	5,089
Band instruments	3,081	3,711
Tobacco	2,370	8,036
Cotton linters and waste	2,043	2,826
Hops	1,781	4,374
Jewelry and precious stones	1,215	5,399
Caviar, crabmeat, etc.	913	755
Sausage casings	397	853
All other	38,608	12,087
Total	92,928	108,200

[Attachment]

Intelligence Estimate

Psychological Implications of Proposal To Exchange Certain Surplus Commodities With Bloc Governments

PROBLEM

What would be the probable psychological and political impact on the Soviet and Satellite populations of barter transactions between the U.S. and various Soviet Bloc governments (not including Communist China) involving the exchange of U.S. surplus perishable commodities for raw materials desired by the U.S.?

ESTIMATE†

I. Direct and Immediate Propaganda Effects

1. Communist propaganda would probably develop the following themes in explaining barter transactions for U.S. perishable food surpluses to the Satellite and Soviet peoples:

a. The Communist leaders had demonstrated again their willingness to develop mutually profitable "business relations" with all countries and thereby to contribute to the relaxation of tensions and to peace.

b. U.S. capitalism was entering a stage of crisis in which the monopolists, having been unwilling to sell their goods to the working masses at reasonable prices, were forced in their desperate search for foreign markets to sell to Communist countries, although they were most reluctant to do this.

c. The purchase of food supplies demonstrated the sincerity of the Communist regimes in their current programs to raise standards of living, as well as their economic capacity to fulfill the promises they have made.

2. U.S. propaganda to Satellite peoples could employ the following themes:

a. The system of free agriculture in the U.S. is so productive that the U.S. is able, despite the high living standard of the American peoples, to export large quantities of agricultural commodities.

b. The U.S. is willing to engage in trade with Communist countries where it is clear, as in the case of perishable commodities, that this trade will help in some degree to alleviate the hard lot of the masses of the people under the Soviet yoke. This is the first occasion on which the Communist rulers have shown any willingness to engage in such trade, and they are evidently forced to do so now because of the increasing restiveness of the peoples under Communist oppression and the obvious failure of their own collectivized agriculture. The willingness of the U.S. to engage in this trade does not affect the U.S. determination not to engage in trade in such materials as would add to the military power of the Communist regime and thus further their aggressive aims.

3. U.S. propaganda would be under some handicaps in asserting that the U.S. action had been mainly inspired by humanitarian concern for the welfare of the people in Communist countries. That fact that the U.S. is plagued by a problem of chronic agricultural surplus must be assumed to be fairly widely known. Moreover, the humanitarian motive would be discredited by statements made in this country that the transactions had been undertaken because

†This estimate has been prepared by the Board of National Estimates of the Central Intelligence Agency. It has not been coordinated with any member agency of the IAC. [Footnote in the source text.]

they were considered to be more advantageous to the U.S. than to the Communists.

4. We conclude, therefore, that in the propaganda exchanges which would immediately follow the announcement of such transactions the U.S. would have, insofar as the Soviet and Satellite peoples were concerned, no clear and decisive advantage. We believe that the propaganda battle would produce mixed reactions among the Satellite and Soviet peoples and would be at best a stand-off.

II. Indirect and Longer-Range Consequences

5. We do not believe that the improvement in standards of living which might result in the USSR or any Satellite country from such transactions would be so substantial as to encourage wider acceptance of the Communist regimes. Nor do we believe it would be so substantial as to sharpen discontent, on the theory that improvements in desperate material conditions would lead to aggressive demands for additional gains.

6. It is possible that such a departure in U.S. trade policy might be regarded by some among the Satellite peoples as a step toward normalizing relations between the U.S. and the USSR. A normalization of relations might carry the implication that there had been an acceptance by the U.S. of the status quo in Eastern Europe. The result might therefore be to discourage hopes for early liberation from Communist control and consequently to weaken the will to resistance.

7. *The Manner of Negotiation.* The foregoing discussion of the consequences of the proposed barter transactions has assumed that these would be negotiated secretly and announced publicly only when agreement had been reached. In a public negotiation, the U.S. could probably gain some net propaganda advantage by initiating proposals for such transactions. On the other hand, if the USSR initiated the proposals, we believe that the U.S. would not derive much advantage from accepting them, and would probably suffer some disadvantage from refusing them.

Eisenhower Library, Whitman file

Memorandum of Discussion at the 191st Meeting of the National Security Council on Thursday, April 1, 1954

TOP SECRET EYES ONLY

The following were present at the 191st meeting of the Council: The President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; the Director, Foreign Operations Administration; and the Director,

Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Acting Secretary of Agriculture (for Item 1); Mr. Anderson for the Secretary of Commerce (for Items 1 and 6); the Acting Director, Bureau of the Budget; the Chairman, Council of Economic Advisers (for Item 1); the Deputy Secretary of Defense; Mr. Davis, Assistant Secretary of Agriculture (for Items 1 and 6); Mr. Clarence Francis, Special Consultant to the President (for Item 1); Lieut. Everhart, USNR, Department of Defense (for Item 4); the Chairman, Joint Chiefs of Staff; the Acting Director of Central Intelligence; the Assistant to the President; Mr. Cutler, Special Assistant to the President; the Deputy Assistant to the President; the Acting White House Staff Secretary; Mr. Harlow, Administrative Assistant to the President; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting, together with the chief points taken.

1. Disposal Abroad of Government-Owned Agricultural Surpluses (NSC 5415)

After Mr. Cutler had briefed the Council on the contents of the Planning Board report,[1] the Acting Director of Central Intelligence stated that CIA had a number of amendments to propose. The first one, in paragraph 2, was designed to correct the impression given by the existing paragraph that the draft report had not considered political and domestic issues but had confined itself to the national security interest involved in the disposal abroad of Government-owned agricultural surpluses. In point of fact, the economic and political considerations had been considered, and this fact should therefore be stated.

After discussion of this and other amendments proposed by CIA, Secretary Humphrey expressed the belief that it would be desirable to trade our surplus butter for almost anything we could get in return from the Soviet bloc. He did not agree that we should confine our trade of butter only to the receipt of urgently needed materials. The President endorsed Secretary Humphrey's point of view by stating that it would be advantageous to the United States at all times to get non-perishable materials in exchange for surplus perishables. The President went on to state that this would apply to materials in the stockpile even in the event that stockpile objectives had already been reached. Secretary Dulles and Dr. Flemming also expressed agreement with Secretary Humphrey's view.

It was accordingly suggested that paragraph 5-a-(1) should be amended to indicate that we would dispose of Government-owned

[1] Reference is the "Draft Statement of Conclusions", p. 175.

surpluses to the USSR in return for any strategic materials and not only for those most urgently needed.

The President then expressed the view that, since the present paper at its outset stated the general rule that disposal abroad of Government-owned agricultural surpluses should be decided on a case-by-case basis, he thought it foolish to vitiate this general rule by a series of specific guidelines set forth in the subsequent paragraphs of the paper.

Mr. Cutler explained to the President that it was essential, before bartering agricultural surpluses with the Soviet bloc, to make sure that such barter did not seriously injure the trade of friendly countries. The President replied that since the materials we received from the Soviet Union would go into our stockpiles, they would be insulated and would consequently do no harm to the trade of our allies. Mr. Cutler then pointed out to the President that the damage might work the other way round, and that if we dumped agricultural surpluses on the Soviet bloc this would deprive some of our allies of their market for these products in the Soviet Union.

Secretary Dulles, using manganese as an illustration, stated that he had assumed that if the United States got non-perishable materials from the Soviet bloc they would promptly be placed in the stockpile. Accordingly, the exchange would not interfere with normal U.S. purchases of manganese from friendly countries.

The President observed that the sensible thing to do was to raise stockpile objectives. We would lose our friends and allies damned fast if we took our butter out into the Atlantic and sank it.

Mr. Francis suggested that the Council not concern itself unduly about surplus butter, since he believed that he had devised a program which would ensure getting rid of the butter without resort to barter proceedings with foreign countries.

Dr. Burns stated his belief that the Planning Board paper had made a valid, if somewhat subtle, distinction between urgently needed strategic materials and other materials which it would be merely desirable for the United States to obtain in exchange for perishables. He likewise endorsed the caution contained in the paper with respect to possible damage to the trade of friendly countries.

Secretary Humphrey, however, reiterated his earlier opinion that he would take anything, even including soft currencies, if we could get rid of perishable agricultural surpluses in the United States. The President likewise emphasized his conviction that the United States could not afford to destroy food under any circumstances.

Secretary Humphrey said that he could not imagine the United States selling butter to the Soviet Union at any price lower than American housewives were obliged to pay for this commodity.

After further discussion, Mr. Francis said that he very much wished to "get into the act". He pointed out that it was possible to distinguish between various types of perishable agricultural surpluses. Butter was in a rather special category, and he hoped that a plan to sell our surplus butter back to the U.S. people would be successful. He did not believe that if cottonseed oil, for example, were bartered or sold to the Soviet bloc at less than the domestic price, it would cause any great difficulty. The real trouble, said Mr. Francis, was that we were not in a position to sell any of these surplus commodities at the world price, although the law permitted such a sale even though the world price was lower than the domestic price. In point of fact, barriers to such transactions existed among the departments and agencies, chiefly on the ground of the injury such transactions might do to the economies of our allies.

The President inquired who was preventing Mr. Francis from making these sales of surplus agricultural products, and Mr. Francis replied that it was primarily the State Department.

Mr. Cutler pointed out that the Planning Board paper had advised against the sale of these products at less than world prices since we were anxious not to depress the world market for these surplus products.

Secretary Dulles, in turn, defended the State Department point of view by indicating that it was impossible for the United States to hold its coalition together if all our specific actions tended to disrupt the alliance. Nothing that the United States could do to finish off the alliance would be more effective than if it proceeded to indiscriminate dumping of its surplus agricultural commodities. Obviously, therefore, the Planning Board had been right to draw attention to the importance of avoiding damage to the trade of our allies.

Mr. Francis stated his agreement with the point of view expressed by Secretary Dulles and by the Planning Board draft, but indicated his conviction that officials of the several Government departments were not following the general guidance suggested by Secretary Dulles, and had been too cautious in reaching decisons regarding disposal of agricultural surpluses.

Governor Stassen said that the Commodity Credit Corporation was more responsible than the State Department for the failure to move any significant amounts of surplus agricultural commodities, because the CCC insisted on getting what they had paid from all those to whom they proposed to sell the commodities. Governor Stassen also endorsed Secretary Dulles' position that such transac-

tions should not be permitted to disturb normal market price. While, he said, we should exchange these commodities at the world price to friendly countries, even though the world price were lower than the U.S. domestic price, we should not do this in the case of sales to the Soviet bloc. Sales to the bloc should be no lower than the domestic price.

Secretary Humphrey agreed with Governor Stassen that the sale of surplus agricultural commodities to the Soviets at a lower than U.S. domestic price would create an impossible situation with public opinion.

Secretary Morse stated that he thought that the "case-by-case" basis offered a sufficient guide in the disposal of agricultural surpluses. While he agreed with Secretary Humphrey that we could not exchange butter with the Russians at a lower price than the U.S. domestic price, he saw no reason why we could not sell them cottonseed oil at less than the domestic price.

After further discussion of desirable revision of paragraph 5-a, Mr. Cutler suggested that the problem be left to the individual who had to administer the program for disposing of perishable agricultural commodities, with discretion to make a decision on a case-by-case basis. Secretary Wilson endorsed this view, and stated that he would be perfectly willing to see the administrator make a few mistakes if he could actually get rid of some of these surplus materials. The President was sure that Secretary Wilson had made a good point.

Mr. Cutler then invited the Council's attention to a proposed revision by CIA of paragraph 5-b, which stated that "The receipt by the Soviet and European satellite peoples of U.S. agricultural surpluses in amounts which are small compared to Soviet bloc production would, in itself, involve no clear security advantage or disadvantage to the United States." General Cabell explained that while CIA agreed to the general reasoning behind this paragraph, he did not agree that there would be no security disadvantage if the United States bartered even small amounts of certain agricultural commodities which have been publicized by the Soviets in recent weeks as in seriously short supply in the Soviet Union. The President said that as he understood General Cabell, the latter did not wish us to assist the Soviet Union to achieve the success of a Five-Year Plan to overcome deficits in the food supply.

Mr. Cutler explained why the Planning Board had taken its position, and added that if the Council adopted General Cabell's suggested amendment the result in all probability would be that no agricultural surpluses could be exchanged by the United States with Soviet bloc countries.

Secretary Dulles expressed the opinion that the proposed CIA revision raised a very basic policy issue. The economic plight of the consumer in the Soviet bloc countries was obviously very bad, and there was widespread distress which posed serious problems for the governments, especially in the satellite states. Two different theories were current in the free world with regard to the free world reaction to this situation. One view, endorsed by Sir Winston Churchill, insisted that the interests of peace would be advanced if the free world shipped commodities to the Soviet bloc which would ease the distress of the consumer and make him more content with his fate. The other view held that the interests of peace were more likely to be advanced if the Soviet rulers were increasingly forced to concern themselves with internal problems; they would be so preoccupied with such problems that they would have no time for external adventures. The Planning Board paper, said Secretary Dulles, looking at this issue, had reached the opinion that the amounts of agricultural commodities which we could send to the Soviet Union were so small as to have no effect one way or the other on the main issue.

It was pointed out that even if we disposed of all our surplus butter to the Soviet Union this would only mean one and a half pounds for each Soviet citizen—not enough either to cause a revolution or to make the Soviet citizen more content with his lot.

The President disagreed, and expressed the belief that a pound and a half of butter to each Soviet citizen could have a significant effect. History indicated that revolutions rarely arose in societies which were completely ground down by poverty and hunger. It was when they got a taste of the better things of life that their discontent with their lot flamed into revolt.

Secretary Wilson said that he still did not understand paragraph 5-b, and wished that it be deleted.

The discussion then shifted to paragraph 5-a-(3), which stated that there would be a security advantage to the United States in receiving dollars from the Soviet bloc in exchange for agricultural surpluses so long as such exchange did not result in material injury to the trade of friendly countries. Secretary Humphrey expressed his disapproval of this paragraph, and suggested that exchanges with the Soviet Union should be by barter only and not in terms of dollars.

After further discussion, Mr. Cutler said that as he understood it, the Council desired to revise this paragraph to indicate that if the United States engaged in anything other than barter transactions with the Soviet Union, there must be a very clear and definite advantage to the United States.

The President predicted that we would have to shut our eyes to a lot of leaks of materials from our allies to the Soviet bloc if we were to keep most of these nations as allies. This applied to all phases of East-West trade. He accordingly again recommended the case-by-case basis for decision, and pointed out the futility of insisting to our allies that they decline to trade with the Soviet Union and at the same time insisting that they cannot trade with the United States.

Dr. Flemming inquired whether the President desired him to formulate a new policy statement which would raise stockpile requirements to enable us to take more non-perishable materials in return for perishables. He pointed out that the use of stockpile funds would ease the financial problem of the Commodity Credit Corporation, and that the insulation of the commodities in the stockpile would cause no undue repercussions on world prices. The President replied that of course this was the common sense thing to do.

Secretary Dulles then raised the specific problem of a Brazilian request for U.S. wheat. Since Brazil had played a key role in helping the United States at Caracas, should we not give the Brazilians the wheat they needed in exchange for materials which we might not need very much? At least this would get rid of our wheat and help a good friend. The President replied that if the transaction did not place obstacles in Canada's path it should be done by all means.

Mr. Francis stated that he was very encouraged at the direction which the Council discussion of the problem had taken, but he hoped that the members of the Council would explain to the officials of their departments the views which they had supported at the meeting. Mr. Francis also endorsed General Cabell's suggested revision of paragraph 5-b so as to avoid any substantial contribution by the United States to fulfillment of Soviet bloc food programs. It was accordingly agreed to accept General Cabell's revision of paragraph 5-b.

Mr. Francis then raised the question of what purpose was served by paragraph 3 of the report, which pointed out that "trading on a government-to-government basis is a departure from private enterprise theory, is inconsistent with U.S. commercial policy and practice, and is warranted only where there are overriding advantages." Mr. Francis questioned whether the issues raised by this paragraph bore any relation to national security considerations, and he felt that it was better for the paper to confine itself to these considerations. Although Mr. Cutler explained why the Planning Board had felt it important to include this paragraph, it was the general view of the Council that it should be stricken.

The National Security Council:

a. Adopted the statement of conclusions contained in NSC 5415, subject to the following changes:

(1) *Paragraph 2:* In the first sentence, insert "primarily" after "standpoint", and delete the second sentence.

(2) Delete paragraph 3, and renumber the remaining paragraphs accordingly.

(3) *Paragraph 4:* In the third line, insert "at not less than world prices" after "dispose". Delete "and that a 'soft' currency, if accepted, would be likely to be useful to the United States."

(4) *Paragraph 5-a:* Delete "which should be made at not less than world prices".

(5) *Paragraph 5-a-(1):* Delete the word "direct" in both sentences, and the words "the most urgently" in the first sentence.

(6) *Paragraph 5-a-(2):* Delete the word "direct" in the first sentence.

(7) *Paragraph 5-a-(3):* Revise to read as follows:

"(3) In the event of disposal other than by barter as in (1) and (2) above, there must be a clear advantage to the United States and no material injury to the trade of friendly countries."

(8) *Paragraph 5-b:* Revise to read as follows:

"b. Although the receipt by the Soviet and European satellite peoples of United States agricultural surpluses in amounts which are small compared to Soviet bloc production would, in itself, seem to involve no clear security advantage or disadvantage to the United States, it should be recognized that even a marginal contribution to achievement of much-publicized Soviet food programs might be against the United States security interest."

b. Noted that the Director, Office of Defense Mobilization, would develop for consideration by the President a policy statement which would authorize increases in stockpile objectives to assist in the disposal abroad of Government-owned agricultural surpluses where there is a clear advantage to the United States.

Note: NSC 5415, as amended, approved by the President as guidance, from the standpoint primarily of national security, for all executive departments and agencies concerned with the disposal abroad of Government-owned agricultural surpluses. NSC 5415, as amended and approved, subsequently circulated as NSC 5415/1.

[Here follows discussion of agenda items 2–7: "U.S.-U.K.-France Consultation on East-West Trade," "Current National Security Policies," "Significant World Developments Affecting U.S. Security," "United States Position with Respect to Germany," "U.S. Policy Towards the Philippines," and "Congressional Presentation of the Foreign Operations Administration Program."]

811.231/5-1254

The Secretary of State to the Secretary of Agriculture (Benson)[1]

SECRET [WASHINGTON,] May 12, 1954.

DEAR MR. SECRETARY: Your Department has invited comments from this Department regarding your plan to sell feed grains for export at world market prices. This plan, we are told, would provide for a new policy of export subsidies for feed grains and weekly readjustments of the prices at which these grains would be offered for export sale.

The State Department fears that an export program of this type would force world prices down unduly and would have serious harmful effects on the economies of other countries. Weekly readjustments in offering prices and in subsidies, which would be expected and awaited by buyers, would have a depressing effect upon prices and would result in the United States following prices progressively downward. Prices could not rise at any time since the United States would stand ready to sell large quantities at prevailing prices. Except in so far as other governments took steps to withhold supplies from the market, the ultimate effect of this policy would be to force prices down to very low levels.

I am aware that support prices in the United States resulted in the loss of export markets for a number of our agricultural products. I do not wish to object to the sale of these products at prices below domestic price levels. The point I wish to stress, however, with respect to the feed grain plan is that an announcement of a continuing policy to make periodic readjustments of prices, and without an evaluation of the effects of the initial downward adjustment, would doubtless create a grave and justified concern among other friendly countries.

Furthermore, I believe it is important to bear in mind that the question of disposing abroad of government-owned agricultural surpluses was considered of sufficient consequence to be considered by the National Security Council early in April. In this consideration of the security aspects of disposing of agricultural supplies, you will recall that a general caveat was entered to the effect that disposal operations should be carried on in such a manner that "no material injury is done to the trade of friendly countries". This in effect reaffirmed Administration policy on this matter, enunciated, for instance, in the communiqué issued after the first meeting of the

[1] Drafted by Linville and Turnage; cleared by Evans.

Joint United States-Canadian Committee on Trade and Economic Affairs. Beyond that, the same concept has been affirmed by the Congress in the safeguards contained in the authority given the Executive in Section 550 of the mutual security legislation.[2]

Extraordinary care must be taken to minimize the ill effects of our special measures on world prices and the usual marketings of other countries. Damage to the economies of these countries must be avoided when this would be contrary to the security interest of the United States. In analyzing the effects of our actions on the economies of other countries consultation is essential. This takes a certain amount of time, and so I hope the Department of State will be notified well in advance concerning any special disposal measures which your Department is contemplating. In the case of reduced prices on cheese and dried milk which were announced recently, the Department requested advance notification of only four working days in order that it might advise other countries of the proposed export price announcement. This short advance notice was adequate in this case only because discussions with interested governments regarding these products had occurred at an earlier date. Ordinarily, however, a substantially longer period of time than four days is essential if consultation is to be meaningful.

I realize that it is difficult for your Department to devise export programs which are effective and which will not, at the same time, have serious effects on our foreign relations. Members of the Department of State will be glad to discuss promptly with representatives of your Department the feed grains problem which I have mentioned and any other special disposal measures which your Department may devise, in an effort to reach an agreed solution of these important problems.

I am sending copies of this letter to Mr. Francis and Dr. Hauge.[3]

Sincerely yours,

JOHN FOSTER DULLES

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[2] Section 550 of the Mutual Security Act of 1953 (Public Law 116), enacted July 16, 1953, provided that not less than $100 million nor more than $250 million of the funds appropriated under the Act were to be used to finance the purchase of surplus agricultural commodities by friendly countries; for text, see 67 Stat. 1520.

[3] Clarence Francis, Special Counsel to President Eisenhower; Gabriel Hauge, Administrative Assistant to President Eisenhower.

411.0031/5-2754

Memorandum by the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] May 27, 1954.

Subject: Discussion of the Trade Agreements Program Extension with Congressman Reed[2]

Problem

To persuade Congressman Reed of the necessity for urgent political and security reasons to extend the trade agreements program for one year without any limitations on the President's authority to negotiate.

Background

A. The President told Mr. Reed today that he is adamant in insisting upon a one-year extension without limitation on his authority to negotiate.[3] Mr. Randall shares this view. It is apparent that the President has asked you to see Mr. Reed in order that you can emphasize the political and security consequences of a failure to get an extension with authority. There should be no reason to be drawn, therefore, into a discussion of the economic details of the trade program.

B. From the standpoint of the United States position internationally, our recent foreign economic policy record, is one of inaction at best or retreat and this is having serious political consequences.

C. The decision of May 10 to drop the heart of the Randall recommendations[4] for this year, was carefully handled to give us some chance of maintaining our position of diluted economic leadership. This is possible if we can engage with other countries in tariff negotiations with Japan.

D. There is alarming evidence of weakness of the Japanese economy. If any progress is to be made in working out improved economic relations between Japan and the free world it will be dependent upon American initiative and leadership. The heart of any endeavor will have to be multilateral tariff negotiations.

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[1] Assistant Secretary of State for Congressional Relations Morton and Deputy Assistant Secretary for Far Eastern Affairs Drumright were also originators of this memorandum, which was drafted by J. Robert Schaetzel, Special Assistant to the Assistant Secretary for Economic Affairs.

[2] Daniel A. Reed (R.-N.Y.), Chairman of the House Ways and Means Committee and a member of the Randall Commission.

[3] Regarding President Eisenhower's personal interest in expanding U.S.-Japanese trade, see the editorial note under date of June 22, 1954, volume XIV.

[4] Commission on Foreign Economic Policy, *Report to the President and the Congress* (Washington, January 1954). See the editorial note, p. 49.

E. Prime Minister Yoshida[5] arrives in Washington June 7, representing a shaky government. If the action taken by the United States Government on the trade agreements program is one which has the effect of precluding any negotiations with Japan, there is a real likelihood that his government will fall upon his return and be succeeded by one less cooperative.

F. Ambassador Aldrich, in a telegram today, gave his considered opinion that a United States failure to take some constructive action in the field of trade policy may preclude British moves towards convertibility and thereby postpone what could be a source of new strength to the free world.

Conclusion

A. A trade agreements act which for the second time precludes the President from using the authority of the Act will be certainly viewed in the free world as a capitulation of United States economic leadership, with consequent impairment of our political position.

B. United States failure to legislate a program which will provide authority to bring about general negotiations with the Japanese would not only mean a failure to provide what could be a significant positive action in the critical area of Asia, but would contribute to further political and economic deterioration in the area.

Recommendations

In presenting the case for quick action with no limitations on Presidential authority to negotiate, you should stress

(a) the frightening political consequences in Asia which might easily flow from a failure to take the action which would otherwise be available to us to bring Japan into the free world's economic community;

(b) the vital significance of this action to the unity of the free world and the strength that might be gained through encouraging British action towards convertibility; and

(c) the immediate political consequence which might result in the fall of the Yoshida government.[6]

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[5] Shigeru Yoshida, Prime Minister of Japan.

[6] In a memorandum to President Eisenhower dated May 28, 1954, Secretary Dulles reported that he had felt from his conversation with Reed that the Congressman would not be unwilling to permit the negotiating of a multilateral treaty under the GATT under an extension of the trade agreements legislation, but Reed claimed he could not control his Committee in the matter. Reed suggested that Secretary Dulles invite the Republican members of the Ways and Means Committee to lunch, which Dulles reported he had done. (394.31/5–2854) No record of the meeting was found in Department of State files.

411.003/6-754

Memorandum by the Secretary of State to the President[1]

CONFIDENTIAL [WASHINGTON,] June 7, 1954.

Subject: Tariff Commission Recommendation on Lead and Zinc

The Department has been asked to comment on the report of the United States Tariff Commission on the escape clause investigation of lead and zinc.[2] Because of the serious nature of the decision you must make on this matter I wish to place my views before you as forcefully as I can.

The Department does not contest the basic finding of the Commission that there is serious distress among marginal lead and zinc mines as a result of the sharp decline in prices since the peak reached during the Korean war. We do not agree however that any substantial part of that distress can be attributed to the reductions that have been made in the tariffs on lead and zinc under the Trade Agreements program nor that the increase in duties recommended by the Commission would serve to solve the problem of the industry. Even if an increase in tariffs were an adequate solution, however, there are most compelling reasons for avoiding tariff increases so long as any other remedy is available. Briefly, these reasons are:

1. The leadership of the United States in international affairs has already been seriously damaged by a series of recent actions that other countries are interpreting as a retreat to economic isolationism. Among such actions are the imposition of import quotas on a number of agricultural products, the rigid application of the "Buy American" principle, the withholding of appraisement on imports in "anti-dumping" cases, a rapid series of escape clause recommendations by the Tariff Commission, the subsidization of agricultural exports in competition with the commercial exports of other countries, and, most recently, the abandonment of the Administration plan for expanded trade agreement authority at this session of Congress.

2. Canada, our natural ally in foreign policy, would be particularly hard hit. The Canadian Government and people are deeply worried about our recent restrictions on agricultural imports from Canada and our export subsidies on some important Canadian export crops. Unfortunately, all but one of the latest escape clause recommendations by the Commission have been directed against

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[1] Drafted by Assistant Secretary of State for Inter-American Affairs Holland and Acting Director of the Office of Economic and Defense Policy Evans.

[2] U.S. Tariff Commission, *Lead and Zinc: Report to the President on Escape-Clause Investigation*, submitted to President Eisenhower, May 21, 1954. For a brief summary of the lead and zinc tariff issue, see U.S. Tariff Commission, *Operation of the Trade Agreements Program*, Eighth Report, July 1954–June 1955, p. 113.

important Canadian exports: fish fillets, alsike seed, in addition to lead and zinc.

3. Our present tariff rates on lead and zinc are bound by international agreement to 11 producing countries: Canada, Australia, South Africa, the United Kingdom, Belgium, Netherlands, Norway, Italy, France, Germany, and Peru. In addition, Mexico and Bolivia would be hard hit. These include many of the most important countries on whom we depend to support our political policies in Europe, the Far East and in Latin America. Yugoslavia, which is in a difficult situation, counts heavily on sales of lead to the United States to earn dollars. In the few days since the Commission's recommendation has been available we have received sharp protests from most of these countries. A summary of other governments' views and the texts of their notes are attached.[3] Our detailed appraisal of the international implications of the proposed action is also attached to this memorandum. I might say here though that we are planning two important inter-American meetings during the next few months, one to eliminate the communist problem in Guatemala, and the other to review the entire field of our economic relations with Latin America. The interest of every Latin American government is concentrated on the question of whether this Administration will take measures which would have the effect of reducing present levels of their exports to the United States. An increase in tariffs on lead and zinc at this time would have serious repercussions throughout Latin America and would weaken our position at both inter-American conferences mentioned.

4. The United States is not, and cannot be, independent of lead and zinc imports even in peacetime. In time of emergency we desperately need these metals. During the period of shortage from 1950–1952 we urged other producing countries to sell to us within our price ceilings and not to take advantage of higher world prices. Canada and Mexico, who are high-cost producers—and particularly Canada whose labor costs are comparable with our own—would be the most seriously affected by increased tariffs. These are the two countries on whose production we should be able to depend in case of war.

Fortunately, increased tariffs are not necessary. The President's Minerals Policy Committee[4] recently recommended, and you approved, a policy of expanded stockpile objectives. This policy was designed to provide the United States with full security in case of emergency and incidentally to prevent the kind of hardship now being suffered by the domestic lead and zinc mining industry. A program of stockpile purchases for lead and zinc within the ex-

[3] Not attached to the source text and not found in Department of State files.

[4] In October 1953 President Eisenhower appointed his Secretaries of State, Interior, and Commerce, and the Director of the Office of Defense Mobilization to form the Minerals Policy Committee, which was charged with the responsibility of making recommendations relating to the nation's production and utilization of metals. In its interim report of Mar. 31, 1954, the Committee recommended establishing larger stockpiles of certain metals than had been approved in the past. See the editorial notes, pp. 1116 and 1257.

panded objective should be instituted without delay. If it should prove that the quantities that can be bought under such a program are not sufficient to meet the problem, a subsidy or other direct support other than tariffs should be considered. This would be consistent with your message to the Congress transmitting the report of the Commission on Foreign Economic Policy.

The Department urges therefore that you reject the recommendations of the Commission and use the authority available to you to meet the problem in a way that would both be much more effective and would avoid the serious international consequences that are certain to result from the erection of additional barriers against imports from friendly countries.[5]

JOHN FOSTER DULLES

[5] Secretary Dulles, in a meeting with President Eisenhower on June 14, 1954, expressed the opinion that an increased tariff on lead and zinc would have very serious repercussions on U.S. hemispheric relations, particularly in Latin America where the United States was trying to organize political support against the Communists in Guatemala. The President replied that he would be inclined to reject the increased tariff if some alternative such as a subsidy could be found. He requested the Secretary to initiate an effort to find such an alternative. (Memorandum by the Secretary of State's Special Assistant O'Connor to Murphy, Waugh, Holland, and Merchant; 811.2543/6-1454)

394.31/7-1654: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State [1]

CONFIDENTIAL PRIORITY LONDON, July 16, 1954—7 p. m.

303. Geneva for Greenwald.[2] Limit distribution. Waugh, Gordon, Corbett,[3] Lewis[4] called on Frank Lee and Edgar Cohen BOT at latter's request to discuss Japanese GATT. They said unqualified membership Japanese unacceptable to them; if had to would invoke Article 35.[5] However we trying to find middle ground and proposed following on informal personal basis, details not yet worked out:

[1] Repeated for information to Tokyo and Geneva.

[2] Joseph A. Greenwald, Economic Officer at the Consulate at Geneva.

[3] Jack C. Corbett, Director of the Office of Financial and Development Policy.

[4] James H. Lewis, attaché in the Embassy at London.

[5] Article XXXV of the General Agreement on Tariffs and Trade permitted any Contracting Party to withhold the application of its schedule of tariff concessions, or of the entire Agreement, from any other Contracting Party with whom it had not previously entered into tariff negotiations. The article was added to the original Agreement in Protocol 1, dated Mar. 24, 1948.

1. Amend Article 35 in review so that without invoking it GATT would apply to UK-Japanese subject to a bilateral agreement registered with CPs.

2. Bilateral would permit emergency action UK to raise duties or impose quotas if excessive imports from Japan threaten disrupt normal trade patterns (no precise wording devised—this was as stated at one point).

3. Problem of Australia, perhaps New Zealand (Australia now applying higher than MFN rates to Japan).

a.) Australia would make similar bilateral with Japan, permitting application to Japanese higher than MFN rates in instances where if Japan given full GATT MFN treatment it would be necessary to raise MFN rate to level of present rates for Japan. (This would be in most instances apparently.)

b.) There might be something along lines of recent preference waiver, to provide that existing discrimination could be continued but not increased; or,

c.) The bilaterals could have specified tariff rates on the items involved.

4. UK would want actual signing or implementation all agreements held over until Japan takes effective action to stop design copying and similar unfair practices (as UK has asked Japan to do).

British felt proposal was logically consistent with US ideas on methods of dealing with organizational problem whereby a CP would be permitted in effect retrospectively to invoke Article 35 to terminate certain obligations. British also stressed their proposal was maximum politically acceptable in UK.

After stressing political problems faced by US in connection Japanese negotiations, Waugh said first reaction to UK proposal was that it would weaken GATT, especially if others would want similar bilaterals. British agreed this was danger but suggested bilaterals could be limited to CPs which had invoked Article 35 in past or had to do so this occasion. Possible time limit on bilateral discussed—best thought could be provision for review and possible termination if no longer needed, say after five years.

British stressed their intention of limiting scope of bilateral, probably to cover only (a) non-automatic removal of discrimination and (b) more flexible emergency action of kind not now possible under GATT. Probably Anglo-Japanese tariff concessions would be in regular GATT schedules, not in bilateral.

British will not be ready to discuss this proposal in intersessional and still want to avoid defining their position at that meeting. Proposed further discussions on details between Embassy and BOT, and in September when Lee and Cohen visit Washington prior to Commonwealth meeting. Urged importance of keeping proposal

confidential since situation obviously very difficult for them if known BOT had advanced proposal for getting Japan into GATT.

ALDRICH

411.003/7-1654

Memorandum by the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] July 21, 1954.

Subject: Lead and Zinc—Conversation with Mexican Ambassador.[2]

I discussed thoroughly with the Mexican Ambassador and his Economic Counselor the relative effect upon Mexico of a tariff of approximately 1½ cents per pound on lead and zinc and a subsidy of 4 cents per pound on the first 200 tons of lead and zinc produced in this country.

The Ambassador was not at all concerned about a subsidy but urged that a tariff would very adversely affect Mexico.

The Ambassador and his Counselor regarded as entirely fallacious the argument that a tariff would increase the demand for imported lead and zinc because United States marginal producers would close down, thus reducing domestic United States production. His reasons were:

(1) The tonnage by which elimination of United States marginal mines would reduce domestic production is negligible in terms of Mexico's exports to the United States. In any event, that tonnage would immediately be made up by increased production from mines remaining in operation.

(2) The real injury which a tariff increase does to Mexico is its effect on her ability to compete with United States producers who remain in production. Her competitive position would be seriously impaired. Any increase in the United States price that a tariff increase might cause would be more than offset by the increase in the tariff barrier that Mexico would have to overcome to reach that market. For example, if, as is expected, a tariff increase of 1½ cents per pound should raise the United States domestic price by ½ cent per pound, the net result would be:

(a) the loss of United States production caused by elimination of marginal producers would be immediately offset by an increase in production of the remaining producers,

(b) the existing competitive advantage that United States producers have over Mexican producers would be increased by

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[1] Drafted by Assistant Secretary Holland and Director of the Office of Regional American Affairs Cale.

[2] Manuel Tello.

the 1 cent by which the tariff increase exceeded the price increase,

(c) Mexico's exports to the United States would be substantially reduced with the injuries to her which are indicated below:

(1) A reduction in Mexico's exports to the United States would further impair her adverse balance of payments which is steadily undermining Mexico's monetary reserves.
(2) A reduction in Mexico's exports would create a more serious problem of unemployment there than here. Some 70,000 persons are employed in the lead and zinc industry in Mexico.
(3) A reduction in our purchases of Mexican lead and zinc would automatically operate to reduce Mexican purchases in the United States.
(4) There is a large amount of United States investment in lead and zinc mining in Mexico which would be adversely affected by a tariff. This might impair our whole program of encouraging United States investment abroad.

The Ambassador said that Mexico was prepared to go to great lengths to convince us of the undesirability of a tariff increase. He offered to have experts on the Mexican lead and zinc industry come to Washington to provide us with all of the data we might wish. As between the proposed tariff and a subsidy of 4 cents per pound on the first 200 tons produced by each mine, he and his Counselor strongly preferred the latter.

In analyzing the Ambassador's statements regarding the effect of a tariff increase on Mexico, I urge that we bear in mind:

(1) In a recent meeting President Eisenhower expressed in the strongest terms his conviction that we must take those measures which will establish and preserve close and effective relations with Mexico. He emphasized our long frontier, as well as the history of misunderstandings and disagreements and the differences of culture and language which make that relationship incapable of sustaining the shocks that will our relations with Canada.

(2) The present administration began with a marked leftist trend which gave Communists greater influence than they have exerted in years. That trend accelerated during 1953. In the past six months it has been arrested and in recent weeks it has begun to move strongly in the opposite direction. There is reason to hope that some Communist sympathizers may be eliminated from some important government posts. This is an occurrence of crucial importance to the United States. Therefore, we should weigh carefully the effect on Mexico of our moves during the next few months.[3]

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[3] Telegram 312 to Mexico City, Sept. 10, 1954, reported that President Eisenhower had declined to accept the Tariff Commission's recommendations to raise the duty on lead and zinc and had announced an alternative program of stepped-up U.S. Government purchases from domestic lead and zinc producers to increase the U.S. stockpile of these materials. The telegram continued that the President's decision was difficult in view of the unemployment in small U.S. mines and the strong do-

Continued

394.31/10-2754

The Secretary of State to the Secretary of Agriculture (Benson)[1]

CONFIDENTIAL [WASHINGTON,] November 2, 1954.

DEAR EZRA: Enclosed is a copy of a confidential note[2] handed to me Wednesday afternoon by Ambassador Makins.[3] It reflects the British Government's fear that the inability of the United States to accept any further limitation on the use of quotas on agricultural imports will block our joint efforts to achieve a successful renegotiation of the General Agreement on Tariffs and Trade. In particular, it might make impossible the acceptance by other countries of more stringent rules on the use of balance-of-payment restrictions, which have served importantly to hinder the export of American agricultural commodities. The note also points out that failure of the GATT negotiations would have serious economic and, hence, political consequences.

Ambassador Makins told me that this note should be regarded as a message from Foreign Secretary Eden, with the full support of the British Cabinet. He said that the note also reflects the views held by the Commonwealth countries generally.

I understand that our two Departments have spent many hours in arriving at an agreed position on Section 22 for use by our GATT Delegation at Geneva. That position, in essence, is that we cannot undertake any commitment that would involve an amendment of Section 22. We are prepared fully to support this presently agreed position. We strongly doubt, however, that our Delegation at Geneva will be able to persuade the other GATT countries to agree to abolish balance-of-payment quotas when at the same time we refuse to accept any significant limitation on our use of agricultural import quotas. It is quite clear, therefore, that our position on

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mestic pressure generated by the unanimous recommendation of the Tariff Commission. It therefore urged the Embassy to point out to the Mexican Government that increased Mexican exports of lead and zinc to the United States could frustrate the President's program and make an eventual tariff increase inevitable. (411.003/9-1054) The text of the White House press release of Aug. 20, 1954, announcing the President's decision is printed in the Department of State *Bulletin*, Sept. 6, 1954, p. 339.

[1] Drafted by Ben H. Thibodeaux of the Office of Economic Defense and Trade Policy.

[2] *Aide-mémoire* from the British Embassy dated Oct. 27, 1954, not printed. (394.31/10-2754)

[3] Record of meeting contained in memorandum of conversation dated Oct. 27, 1954. (394.31/10-2754)

the use of agricultural quotas will be the greatest obstacle to reaching international agreement on a revised GATT.

As you know, the President attaches great importance to the successful conclusion of these negotiations. I should appreciate your giving the problem of Section 22 your personal attention to see if anything might be done to strengthen the position of our Delegation at Geneva if the fears described above are realized. A renegotiated GATT will be of direct benefit to American agriculture and to our foreign relations generally. I am sure you will agree that we should give the Delegation every possible assistance we can on this problem.

I am sending a copy of this letter and the British note to other members of the Cabinet concerned with the negotiations at Geneva.

Sincerely yours,

JOHN FOSTER DULLES

Editorial Note

The Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade was held at Geneva, Switzerland, October 28, 1954–March 7, 1955. Assistant Secretary Waugh again served as chairman of the United States Delegation and Brown as vice chairman. For a list of other members of the United States Delegation, see Department of State *Bulletin*, November 8, 1954, page 711. Waugh's address before the Ninth Session of the GATT is printed *ibid.*, November 22, 1954, pages 772–776.

GATT files, lot 63 D 134, "Section 22"

Memorandum by Leonard Weiss of the United States Delegation to the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade to the Chairman (Waugh)[1]

CONFIDENTIAL [GENEVA,] November 10, 1954.

Subject: Our Position on Section 22

At our Delegation meeting this morning we were asked to consider how, given that we do not modify Section 22 in any way, we should meet this problem in the GATT. I would like to raise again a more fundamental question of whether we should not seek to modify our substantive position on Section 22 and try to reach agreement with the countries here on a reasonable agricultural

[1] Memorandum addressed also to Vice Chairman Brown.

provision even if it should require our going to the Congress to seek an amendment of Section 22.

I think I am fully appreciative of all the difficulties that following the latter course would entail for us domestically and with the Congress. I wonder, however, for reasons suggested below, whether it would not be possible for us to follow such a course and still attain our objectives in the Congress—and on a more satisfactory basis than if we adhered to our present position.

Before going into the details of what I would like to propose, I should like to emphasize that my concern about our present position on Section 22 is not so much as to our ability to get other countries to accept it, as it is with respect to the great cost that we are likely to have to pay to achieve our position. Our position on Section 22 weakens our entire posture in the GATT. In particular, it is going to make it exceedingly difficult, if indeed it will be possible at all, to get in the GATT the kind of balance-of-payments provisions we would like to see. It is affording the basis on which other countries, for example the Germans, are seeking broad exemptions to apply restrictions to protect their farmers—restrictions which will materially impair the opportunities for American agricultural exports abroad.

In any case, aside from these substantive aspects, it would seem unlikely on the basis of our present position on Section 22 that we shall come out of these negotiations with a result which will be palatable to the Congress. The other countries here are not likely to accept the technique of giving us an exemption for Section 22 in the form of changing the date in the Protocol of Provisional Application. But even if they were, the advantage domestically for us in getting such an exemption must be offset by the political disadvantage at home in coming back to the Congress with an agreement which fails to do much, if anything, to get rid of balance-of-payments restrictions against American exports and which further opens the way for other countries to apply restrictions on US exports of agricultural commodities.

Are there other techniques for meeting this problem in the GATT in a way which would not require a change in Section 22 and in a way which avoids the political difficulties we fear if we should seek an amendment to Section 22?

I am inclined to doubt it. Some countries have suggested that we ought to seek a waiver under Article XXV[2] of the GATT to meet

[2] Under Article XXV, two-thirds of the Contracting Parties to the GATT could waive an obligation imposed upon a Contracting Party but would have the right to prescribe whatever conditions or criteria they desired for the execution of the waiver.

our problem. If such a waiver were granted, I would think that it would be limited in some way, either time-wise or on the basis of some general standards, so that we would not in fact be able to go back to the Congress and say that we have a completely free hand as regards Section 22. Walter Hollis[3] has made a suggestion for a provision in the GATT which would allow us to go as far as the letter of Section 22 might permit but which, if we went that far, would authorize retaliatory action against us. I doubt that the Congress would be happy with any such provision explicitly sanctioning retaliatory action against us if we apply Section 22 up to the maximum it might allow or require.

Since we would seem to face all these political difficulties with the Congress in trying to maintain Section 22 under the GATT, I wonder if it would not be better for us to take all these political difficulties in fighting for a provision we believe is reasonable and defensible, one which enables us to obtain a more satisfactory result generally in our negotiations in the GATT, and one which leaves us with a result more fully in accord with our national interest.

What I would like to suggest for consideration, therefore, is that we return to our proposal to allow import restrictions in order to safeguard domestic agricultural programs, provided, however, that such restrictions are not applied to cut off normal imports, that is, imports which would have come in even if we had not had any domestic program. I think any reasonable person would agree that such a provision would be fair, to us as well as to foreigners. Its inherent equity would, it seems to me, provide an extremely powerful argument to persuade the Congress to accept it. Indeed, it can be argued with some force that the purpose of Section 22 even as it is now written is not to curtail normal imports but only those imports which have been attracted by our domestic support programs.

If in addition to the essential reasonableness of this proposal, we could also show the Congress that we have got in the GATT tighter balance-of-payments provisions and other limitations which will promote American exports generally and agricultural exports in particular, we would have a very strong basis for persuading the Congress to accept the change in Section 22 involved. With the "normal imports" approach suggested above, we would have a very good chance of getting in our negotiations here the kind of balance-of-payments provisions the Congress would like to see and of avoiding any general opening up of the door to other countries to impose restrictions on agricultural imports from us and others.

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[3] A member of the U.S. Delegation.

Let us assume, however, that despite the reasonableness of this proposal and despite the fact that it enabled us to get a GATT otherwise highly satisfactory to the Congress, the latter refused to accept any provision in the GATT involving a modification of Section 22. It would seem to me that in such circumstances, we, at worst, might still get our Organization Agreement through the Congress, with some sort of reservation to the effect that acceptance of the Agreement by the Congress is subject to our further renegotiating the GATT so as to give us a free hand with regard to Section 22.

If we did wind up with such a reservation, we could then go back to the Contracting Parties and seek such a provision as we are now attempting to get—and, in my judgment, we could seek such a provision with much better results and under circumstances much more propitious to the achievement of our objectives. If we had such a reservation, we would be coming back to the Contracting Parties *after* the GATT had already been tightened up in the respects which we desire and *after* we had approval from the Congress of our Organization Agreement, albeit subject to a reservation.

If you feel there is some merit in the above line of argument, I wonder if it would not be useful for us to discuss the matter with Congressman Cooper and with Senator Gore when he arrives to get their reaction.[4]

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[4] Senators Albert Gore (D.-Tenn.) and Frank Carlson (R.-Kans.) and Representatives Jere Cooper (D.-Tenn.) and Richard M. Simpson (R.-Pa.) were members of the U.S. Delegation.

394.31/11-1654

The Secretary of Agriculture (Benson) to the Secretary of State

CONFIDENTIAL WASHINGTON, November 16, 1954.

DEAR FOSTER: We have received your letter of November 2,[1] and the confidential note which was handed to you a few days ago by Ambassador Makins relative to the desire to impose some limitations on our use of Section 22 in the forthcoming GATT negotiations in Geneva.

I agree with you that this issue is a tough one. Our two Departments spent considerable time together on this question before the United States delegation left for the Geneva meetings. I understand that our Departments reached an agreement. We note that

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[1] *Ante*, p. 207.

your Department is fully prepared to support the presently agreed position. We appreciate this, especially because we realize the very difficult situation in which it places your negotiators in their attempts to obtain concessions from foreign countries with respect to balance of payment quotas and the like.

I don't see how we can change the position we are taking in Geneva. Section 22 is an Act of Congress. It would be quite presumptuous on the part of the Executive Branch of Government to attempt to negotiate away this feature of our legislation in an international session such as the one currently meeting in Geneva. The Department of Agriculture can determine administratively to use authorities under Section 22 more or less frequently, but legally the Department cannot negotiate away its right to make such administrative determination. To do so would obviously circumvent the directive from Congress, and would surely invite severe criticism of the Department in Congress.

The United States delegation is not without bargaining power in the Geneva sessions, even though not yielding on the Section 22 issue. We are moving in the direction of less dependence on Section 22 in the following way:

1. The flexible farm price support provision in the Agricultural Act of 1954 provides for gradually lowered levels of price support for farm products. This will reduce the necessity for such large CCC purchases of farm products, and will consequently reduce or even eliminate the need for imposition of import quotas under Section 22. Flexible farm price supports will also tend to narrow the wide disparity which has existed between domestic price levels and foreign price levels for selected farm products. This will further reduce the need for import quotas.

2. The Eisenhower Administration is definitely dedicated to a general restoration of foreign trade on a multilateral basis. The Department of Agriculture subscribes to this point of view. It is therefore the administrative philosophy in Agriculture to institute the authorities under Section 22 with considerable restraint.

3. We are working vigorously to reduce Government-owned stocks of food and fiber. We are making substantial progress. As these stocks are reduced the necessity to impose import restrictions is lessened.

It also should be pointed out by the U.S. delegation that domestic price supports in the United States, together with large CCC purchases of surplus farm products, have provided a "price umbrella" for producers in many other countries, under which their own markets flourished and production expanded. Many foreign producer groups have therefore gained indirectly from the U.S. price support operations, even though not participating directly in the artificially supported U. S. market.

We believe that if the United States delegation at Geneva can strongly advance the arguments listed above, their bargaining position will be far from hopeless.

Please be assured that the Department of Agriculture is anxious to cooperate in every way possible to reduce international barriers to a freer flow of goods and services.

A copy of this letter is going to other members of the Cabinet concerned with the negotiations at Geneva, as did copies of your letter to me.

Sincerely yours,

EZRA

394.31/11-1754

Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) to the Secretary of State[1]

OFFICIAL USE ONLY [WASHINGTON,] November 17, 1954.

Subject: Cabinet interest in tariff negotiations involving Japan

Discussion:

In reply to an informal inquiry by Dr. Hauge, we have indicated that at the next cabinet meeting you may desire to make a brief presentation on the important national interest considerations involved in the tariff negotiations to expand Japan's trade. Following are the points we believe should be emphasized:

1. As the President and the cabinet have previously concluded, an expansion of Japan's trading opportunities with free-world countries is essential to our basic security interests, and is the only alternative to continuing economic aid at the expense of U.S. taxpayers or the risk that Japan will drift toward the Soviet bloc.
2. In keeping with the above objective, the United States has encouraged other countries to participate with us in helping to provide expanded trade opportunities for Japan. The tariff negotiations for this purpose will begin at Geneva in February 1955. We are hopeful that as many as twenty countries will participate in the negotiations, all within the framework of the General Agreement on Tariffs and Trade (GATT).
3. Preparations for the tariff negotiations have been set in motion by the interdepartmental trade agreements organization. This organization embraces the Departments of Agriculture, Commerce, Defense, Interior, Labor, State and Treasury, the FOA and the Tariff Commission, but final decision is made by the President as to commodities on which tariff negotiations are to be held.

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[1] Assistant Secretary Waugh returned to the United States from Geneva on Nov. 14, 1954.

4. The strengthening of the Japanese economy is not only imperative for our national security but is also consistent with our best economic interests. The recent publication of items proposed for tariff negotiations will undoubtedly result in strong protests from various groups. These protests, however, must be balanced against the over-all national interests, both immediate and long term.

5. We hope that all members of the Cabinet will actively support this project to which the President has assigned high priority and which is so important to the over-all interests of the United States.

Recommendations:

That you bring the above considerations to the attention of the cabinet at its next meeting.[2]

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[2] Regarding the discussion of tariff negotiations with Japan at the Cabinet meeting of Nov. 19, 1954, see footnote 2 to the Minutes of the Cabinet meeting of Nov. 5, 1954, printed in volume XIV.

394.31/11-2354: Telegram

The United States Delegation to the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade to the Department of State

OFFICIAL USE ONLY GENEVA, November 23, 1954—5 p. m.

Tagg 100. Pass White House for Randall and Hauge. It is becoming increasingly apparent that one of the main factors bearing upon the success or failure of this conference from the US point of view is the extent to which we can agree to consultation with respect to subsidies, section 22 and disposal of non-commercial stocks.

We are seeking (a) rules which will not unduly limit our use of subsidies, (b) to preserve our right to use section 22 under as open-ended a waiver as possible, and (c) to prevent the new agreement from dealing with commodity policy.

Some countries want to prohibit subsidies; most want to see them strictly limited, but want a tighter rule than the necessarily vague concept of equitable share. They can probably be persuaded to accept this concept if assured of a right to consultation. Delegation would argue that adequate opportunity for discussion is assured by present article XVI amended to require prompt consultation on request country claiming adverse effect. Delegation requests authority agree such amendment.

Most countries realize that we must have a waiver for section 22. The question will be upon what terms. The terms can be made far more liberal and open-ended if countries affected have the assurance that they will be consulted as Canada has been consulted.

Canada will testify to the generally satisfactory results of such consultation for them.

Large majority of countries want GATT to deal with commodity policy as way of minimizing fluctuation in commodity prices. One important unsettling factor which concerns them is possibility sudden large liquidation US strategic stocks. Will greatly help defeating inclusion commodity policy provisions if their advocates can point to legal commitment for prior notice and consultation on liquidation of such stocks. Requirement such consultation would be wholly consistent with conclusions Randall Commission page 36 its report which will undoubtedly be quoted by other countries this connection.

Underlying thinking of all agricultural producing GATT countries is fear possible adverse impact their trade our PL 480[1] and 665[2] programs which to some extent fall outside present provisions GATT and invoke such unusual factors affecting normal competition as sales for local currency, return of proceeds to recipient country, etc.

Worry about these programs is one of their greatest concerns and degree reassurance this point they can take home will bear heavily on extent they can agree other provisions we want. Delegation believes this need could be met and undue tying of US hands could be avoided if Delegation were authorized to make formal statement that it would be US policy in administering PL 480 and 665 to consult with countries whose interests might be adversely affected with view minimizing or avoiding such effects.

Foregoing well illustrated by case of Australia, which is one of most troublesome situations in conference.

Australia appears to be genuinely considering whether it will remain in or leave GATT with slight preference for remaining if possible. This important because of Australia's key position as industrialized country in Southeast Asia and member of British Commonwealth with contractual obligations to other Commonwealth countries under Ottawa Agreements. Australian Delegation is making difficulties on whole series of points, e.g., CP approval of balance of past payments QR, role of IMF, inclusion of commodity provisions, change in no new preference rule, freedom to change bound tariff rates, subsidies and section 22.

Delegation has reviewed entire field exhaustively with Australians. Conclusion is that their major difficulties could be met if US could give assurances on consultation suggested above. By consulta-

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[1] Agricultural Trade Development and Assistance Act of 1954, enacted July 10, 1954; for text, see 68 Stat. 454.

[2] Mutual Security Act of 1954, enacted on Aug. 26, 1954; for text, see 68 Stat. 832.

tion we do not mean agreement, but simply sufficient opportunity to make their views known and suggest result that would avoid undue damage their interests. Hard bargaining will be necessary with Australia on many points they have raised, but convinced agreement can be reached if this central point of consultation established. Australians advise they prepared station and maintain man permanently in Washington fully qualified conduct consultations their behalf.

Randall Commission report page 32 advocates "continue policy and extend practice of consulting" on export subsidies and import quotas.

Refusal US accept principle consultation implies insincerity in professions we do not intend injure trade of others and puts US in position of reserving right to use vast financial resources to possible serious detriment of others without giving them chance to be heard.

Such refusal would be doubly harmful our negotiating position and general standing conference in view fact that US has in fact consulted with Canada on section 22 quotas with generally satisfactory results, has already accepted obligation of prior consultation under article XX, part II, (c) with respect to liquidation of temporary surpluses of stocks owned by government, has general obligation to consult under article XXII, accepted resolution on consultation with respect to liquidation of stockpiles at last Latin American Ministers conference, states in September 9 policy statement that it does not desire injure other friendly countries in its disposal operations, and that Randall Commission advocated consultation.

Delegation fully appreciates that consultation will involve many practical difficulties and that some countries may endeavor abuse this right. But convinced these will be minority and that beneficial results will far outweigh disadvantages not only with respect success this conference, but with respect general long-run interests US and actual effectiveness our disposal programs.

Delegation therefore requests authorization (a) agree in principle commitment consult on liquidation of strategic stocks, specific proposals to be submitted to Washington for approval, (b) consider if necessary consultation provision in connection with section 22 waiver, and (c) to make statement that consultation in connection with administration, PL's 480 and 665 will be US policy.

Reply soonest.[3]

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[3] In telegram Gatt 107, dated Dec. 2, 1954, the Department confirmed the principle of consultation with interested nations particularly with regard to U.S. transactions under Title I of P.L. 480. The Department defined "consultation" in terms of "discussion" and "explanation", and requested the U.S. Delegation to insure that other Contracting Parties understood the term to mean the same thing. (394.31/11-2354)

Parker and Fleming concur.[4]

[4] Lamar Fleming, Jr. of Anderson, Clayton and Co., Houston Texas; and Cola G. Parker of Kimberly-Clark Corp., Neenah, Wisconsin, were both public members of the U.S. GATT Delegation.

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Notes on the Legislative Leadership Meeting Held at the White House, December 13, 1954 [1]

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon

Sen. Knowland
Sen. Bridges
Sen. Millikin
Sen. Saltonstall
Sen. Ferguson

Speaker Martin
Rep. Halleck
Rep. Arends
Rep. Allen

Gov. Adams
Gen. Persons
Mr. Shanley
Mr. Hagerty
Mr. Snyder
Mr. Morgan
Mr. Randall
Mr. Jack Martin
Mr. Harlow
Mr. Gruenther
Dr. Hauge
Mr. Minnich

Sec. Dulles
Asst. Sec. Thruston Morton
Sec. Humphrey
Sec. Wilson
Asst. Sec. McNeil
Asst. Sec. Carter Burgess
Asst. Sec. Seaton
Asst. Sec. Struve Hensel
Mr. Summerfield
Asst. PMG Lyons
Mr. Ben Guill
Sec. Benson
Sec. Mitchell
Sec. Hobby
Under Sec. Rockefeller
Asst. Sec. Perkins
Director Hughes, Budget
Mr. Brundage
Gov. Stassen, FOA
Chrm. Young, CSC
Mr. Albert Cole, HHFA
Dr. Milton Eisenhower

The President opened the meeting by noting that the past year had left much unfinished business, which would constitute a large

[1] For extracts of the notes on the Legislative Meeting held Dec. 14, 1954, as a continuation of this meeting, see pp. 111 and 811.

part of the program for the coming year, and that there would not be a great deal of material new to the Leaders. He felt the task of getting a program through would be more difficult because of Democratic control of the Congress, that there would have to be some experimentation on procedures in dealing with this new situation, but that it was helpful to have already developed pretty well procedures for doing business among Republicans.

[Here follow the President's comments relating to the topics to be covered, followed by discussion of various budgetary, foreign policy, defense, and mutual security issues. For text of the section on mutual security, see page 810.]

Trade Program—Mr. Randall stated that the 1954 proposal for extending the Reciprocal Trade Act and related items would be resubmitted with a few minor revisions. He quickly reviewed some of the items in the program, stressing the problem of Japanese trade. In this connection, he noted some peril point hearings currently underway, and how sensitive the Japanese are to every single one of these proceedings. Mr. Millikin asked whether the action re Japan would be by quotas or by revisions of rates. Mr. Randall said it was undecided, and the President stressed the need for doing something.

Mr. Millikin then opened a lengthy discussion over GATT. He thought it very important to iron out the status of that organization prior to action on Reciprocal Trade. Also, he suggested an alternative of "trading out" rather than providing a particular authority to the President. When Mr. Randall suggested it might be best to keep details of the bill "off the floor" Sen. Knowland asserted that inclusion of such a provision was not the way to keep details off the floor. Mr. Randall then agreed it might have to be cleaned up a bit, and he appreciated Sen. Millikin's strong convictions. He pointed out, however, that the President instructs the State Department on what lines to carry on negotiations and he felt the President had to have that power.

(The President departed for lunch with the Shah.)

Mr. Halleck stated how difficult it would be to enlist Republican support for this bill, and he inquired whether the bill could be made "any easier to love" or was it already set at an irreducible minimum. Randall replied that the whole program had been reviewed after Congress adjourned, and that this now was at the minimum. Sen. Knowland thereupon spoke of how the great value of these leadership meetings lay in their use for reconciling divergent views, how foreign trade was essentially a Congressional matter although some of its authority had been delegated to the Executive, and how the required votes were to be found in the Congress rather than in the Commission which had advanced this pro-

gram. He thought that the proposal ought to be adjusted somewhat along the lines suggested by Millikin if there was any value in having the advice of the leaders, and he thought that Mr. Randall ought to keep his own mind flexible for these discussions as well. Mr. Randall replied that his task was to present the recommendations in which he believed, and that it was a different matter as to what the President and the leaders concluded after that presentation was once made. Mr. Knowland repeated that he and his associates were trying to get to a meeting of the minds so that the Executive and the Party majority would not be taking opposite positions.

Mr. Halleck thought perhaps it would be best to eliminate this item from the agenda for the next day. Gov. Adams suggested that further discussion be postponed until the afternoon session when the President would again be at hand. The discussion was then concluded as Mr. Morgan repeated that the bill was the same as in the preceding session, and as Mr. Randall assured Sen. Millikin that the Congress would not be approving GATT by its action on this proposal. Mr. Halleck said he would go along as necessary now that he understood it was the same bill as last year.

[Here follows discussion of several miscellaneous issues, after which the meeting adjourned for lunch. It reconvened at 2:55 p.m. with President Eisenhower present.]

Reciprocal Trade—The President said he had been informed of the discussion that followed his departure prior to lunch. As for GATT, he understood that our negotiating group had been given clear instructions that everything new would have to be submitted to the Congress before taking effect. He recalled that the Randall program had been thrashed out last year. Even while he recognized that many differences of opinion existed, he wanted to emphasize that this was very much a part of the program in which he believed and which he represented. Noting that the United States spends billions in arms, he asserted that all such money would be inadequate to what we need unless we do something to enable some of our allies to make a living; and we could do that without ruining our own country. He concluded by describing the Randall proposal as essentially a middle of the road approach.

Sen. Millikin explained that he did not object to the advisory and consultative functions of GATT, but he wanted no part of regulation by a supra-national authority to which the Senate had repeatedly objected. The power belonged to the Congress, not to a supranational body. The President said this was the first time he had ever heard the GATT procedures being challenged, and if there was something wrong with them, they ought to be re-examined.

Millikin repeated that GATT had never been submitted to Congress, that the Senate caveats had always been ignored.

Mr. Randall assured the group that the Attorney General was keeping in close touch with the GATT negotiations and would be able to insure protection against any improper supra-national arrangement. Mr. Randall received approval for limiting his presentation to the bipartisan group the next day to a simple statement of the proposal being resubmitted. The President thought Randall ought add a short statement about the Japanese trade problem. The discussion concluded as Millikin joshingly urged Randall to leave the Congress some elbow-room, and Randall replied in kind about the big elbows of the Congress!

[Here follows discussion of the highway program and other unrelated issues.]

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Review of Public Law 480 Decisions Taken by the Interagency Committee on Agricultural Surplus Disposal (ICASD)

CONFIDENTIAL [WASHINGTON,] December 15, 1954.

Problem:

In administering Public Law 480, should the policy followed by the Interagency Committee on Agricultural Surplus Disposal be continued?

Discussion:

The purposes of P.L. 480 as interpreted by the ICASD are as follows:

Title I of P.L. 480 contains a variety of purposes to be accomplished by the sale of surplus commodities for foreign currencies and by the use of such currencies. It carries a ceiling of $700 million loss to CCC over a three-year period.

Title II of the Act authorizes the transfer on a grant basis to friendly governments and to friendly but needy populations, of surplus commodities in CCC stocks in order to meet famine and other urgent relief requirements or to assist programs undertaken with friendly governments or through voluntary relief organizations. $300 million is provided over a three-year period.

Title III authorizes barter for certain materials, amends previous legislation relative to surplus disposal by voluntary agencies, forbids trade with the Soviet area. There are no policy questions under Title III.

It has been the ICASD's general policy to proceed cautiously under the Act until effects both on U.S. dollar sales and on other friendly exporting countries were clear. The ICASD has unanimously agreed to the country programs for the first year appearing

in the attached paper. They total $453 million under Title I for 17 countries and $124 million under Title II for 12 programs.

Recommendation:

That the President approve the Interagency Committee's policy of basic caution in administering Public Law 480 with due regard for foreign policy considerations.

Attachment:

Background paper on this subject prepared by the Chairman of the Interagency Committee on Agricultural Surplus Disposal.[1]

[1] Not printed.

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Paper Prepared by the Interagency Committee on Agricultural Surplus Disposal [1]

CONFIDENTIAL [WASHINGTON,] December 15, 1954.

POLICY REVIEW OF DOLLAR SALES TO THE SOVIET BLOC OF AGRICULTURAL SURPLUS COMMODITIES

Problems:

1. Should the United States sell agricultural surplus to friendly countries for dollars at world prices with the knowledge that such produce would find its way to the Soviet Bloc?

2. Should the United States sell agricultural surplus to the Soviet Bloc for dollars at world prices?

Discussion:

Opportunities continue for disposing of substantial quantities of surplus, mainly butter, with final destination the Soviet Bloc. These are proposals by friendly countries to buy for dollars at market prices. Some are offers of brokerage for shipment to the Soviet or Satellites; some to take commodities for reworking and transshipment; some to consume totally within the friendly country, releasing local produce for shipment behind the Curtain.

A previous concensus of the Cabinet (January 15, 1954) was to deny a license to export butter to the U.S.S.R. The reasons, appearing in the *aide-mémoire,* were: (a) we should not sell this commodity at a loss; (b) there might be adverse public reaction if the U.S.

[1] Distributed to members of the Cabinet as a Cabinet Paper, designated CP-9, under cover of a memorandum by Secretary to the Cabinet Maxwell M. Rabb, dated Dec. 15, 1954, not printed.

sold butter to Russia at a price below that paid by American housewives.

If reason (a) is controlling, this avenue of possible disposal is blocked, inasmuch as the cost price to the CCC tends to be above world market prices for the same commodity, because of the operation of domestic price supports.

If, however, reason (a) alone would not preclude such sales in the absence of other reasons, it may be that the introduction into the transaction of a friendly third country (which stands to benefit by it) could have an effect on reason (b).

The Department of Agriculture has been unable to devise a politically feasible plan or one not involving risk of ruinous cost for domestic disposal of butter surpluses.

The Interagency Committee on Agricultural Surplus Disposal (ICASD) feels that the policy on this question should be reviewed. It is the Committee's opinion, in respect of reason (b) above, that the judgment of the American people can be relied on if a full and honest disclosure of the situation is made.

Recommendations:

1. (a) That the President approve in principle the sale for dollars at competitive prices of surplus agricultural commodities to friendly countries, even though such commodities may ultimately go to the Soviet bloc or be available to it;

(b) that the President authorize the agencies concerned to proceed to negotiate such transactions as presently offer or as may offer and can be negotiated within 90 days from this date and authorize the Secretary of Commerce to issue export licenses therefor; and

(c) that the Chairman of the Interagency Committee on Agricultural Surplus Disposal be directed to report to the Cabinet at the end of that period the nature of such transactions, together with an estimate of their effects at home and abroad.

2. If the first recommendation is accepted, the Committee proposes that the idea of direct sales to the Soviet Bloc for dollars (but not for gold) be entertained and recommends that the President approve such sales on the same basis as described in the first recommendation. The Treasury Department and the Bureau of the Budget reserve their positions on this recommendation.

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Minutes of the Cabinet Meeting Held at the White House, 9:05 a.m., December 17, 1954

CONFIDENTIAL

The following were present:

The President

Vice President Nixon
Under Sec. of State Hoover (for Sec. Dulles)
Under Sec. of Treasury Folsom (for Sec. Humphrey)
Sec. Wilson
Mr. Brownell
Mr. Summerfield
Sec. McKay
Sec. Benson, and Asst. Sec. Earl Butz
Sec. Weeks
Sec. Mitchell
Sec. Hobby
Director Hughes, and Deputy Director Brundage, in part
Dr. D. A. FitzGerald (for Gov. Stassen)
Dr. Flemming
Chairman Young
Dr. Arthur Burns
Under Sec. of Commerce Murray, in part
Arthur Page, in part
Arthur Schier, in part
Prof. Ernest W. Williams, Jr., in part
Richard Hall, in part
Under Sec. of Interior Davis, in part
Under Sec. State Saltzman, in part
John W. Macy, Jr., CSC, in part
Henry Duflon, CSC, in part
Director Allen Dulles, CIA, in part
Hon. Clarence Francis, in part
Gov. Adams
Mr. Shanley
Mr. Rockefeller
Dr. Hauge
Gen. Cutler
Mr. Lambie
Mr. Morgan
Mr. Martin
Col. Goodpaster
Mr. Rabb

The President opened the meeting with a reference to the traditional practices of wedge-driving which he believed would undoubtedly be intensified in the months ahead. He stated his desire to avoid anything that would serve to gag Cabinet members. He hoped, however, that Cabinet members would merely laugh at any wedge-driving efforts. He also recalled the success the Cabinet had had thus far in resolving differences of opinion by discussion in a friendly fashion.

[Here follow a discussion of transportation policy and an interim report to the President on national water policy.]

P.L. 480 Program (CP–8)[1]—Mr. Francis summarized the material in CP–8 and set the question as one of whether the program was overly cautious or overly liberal.

The President inquired as to how much money would be returned to the United States through these operations. Mr. Francis believed only about 10 percent would come back in dollars. Mr. Francis then pointed out, and Mr. Hoover noted agreement, that this program had not been set up as a means of saving money on other programs. Mr. Hoover commented at length on the many difficulties with which this program is fraught and he illustrated with details from the wheat-for-Brazil program and the added involvements caused by the negotiations between Argentina and Brazil.

Sec. Benson questioned whether the program as set up really carried out the intent of Congress, particularly in regard to improvement of trade. Mr. Francis believed it did.

Mr. Flemming asked about the extent to which Title I had been used for supplementary stockpiling of critical materials. The President commented on his desire to see the United States exchange perishables for durables. Mr. Francis said much more could be acquired for the stockpiling if the door were to be opened in his other paper. Mr. Benson produced some figures concerning stockpile acquisitions but it developed that this involved Title III and that ODM paid for the material in dollars.

CP–8 was then approved.

Foreign Sales of Agricultural Surplus Commodities (CP–9)[2]—Mr. Francis then set forth the State Department's objection to the proposal for offering some 20 million pounds of butter on the world market on a bid basis. He recalled the protests made a year ago in regard to the similar program for cottonseed and linseed oil, and he emphasized that a favorable result had been obtained despite the pessimistic predictions, and that the market price was now rising without the threat of an overhanging surplus.

Mr. Benson believed this program would enable a testing of the world market price and that it was to be done in such a small quantity that there would be no danger of serious repercussions. In reply to the President, Mr. Butz pointed out that the effect of offering butter on a bid basis would probably result in a price offering of 38¢.

The President commented that the expected income from the sale of this amount was too small to risk the loss of good will on

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[1] "Review of P.L. 480 Decisions," Dec. 15, p. 220.

[2] "Policy Review of Dollar Sales to the Soviet Bloc," Dec. 15, *supra*.

the part of our friends to whom the sale of their butter was a life and death matter. On the other hand, he believed that there must be some place in the world where our butter could be used without endangering our friends. In this connection, Mr. Hoover had no objection to the use of the P.L. 480 program. Mr. Benson emphasized that the current world price of 41¢ was undoubtedly too high because of governmental operations in the market, including our own government. Mr. Hoover requested time for the State Department to explore the matter with our allies involved. The President so directed, adding a comment that State should emphasize to our allies that the proposal was for experimental purposes and on a very limited basis.

Mr. Francis questioned how his Committee could dispose of surpluses except through programs such as this. The President emphasized the importance of other problems, such as world affairs, and commented that other members of our "family of nations" should not be compelled to pay for the domestic blunder of the United States when it got into the business of accumulating these surpluses.

Mr. Francis then presented CP-9. The President repeatedly emphasized his desire to exchange perishables for durables. Mr. Wilson wished to conduct barter operations, as did Mr. Weeks. Mr. Benson pointed out that the previous determination not to sell butter to Russia at a price lower than that paid by American housewives was obsolete now that our domestic price was much lower.

Mrs. Hobby emphasized the desirability of having any sales go to our friends rather than directly to Russia.

The discussion then turned to the phrasing of any announcements. When it appeared that publicity was not to be given to this decision, Mr. Francis emphasized that he could not keep the transaction secret and that the decision would have to be made in the knowledge that it would be public in the near future.

The Vice President commented that the whole problem of trade with the Iron Curtain countries was being increasingly recognized as one on which some progress had to be made. He recognized that the public relations problem would always exist but he felt that if the decision were to be in favor of a revised approach, the present was exactly the right time to begin making a little progress. He felt that controversy would surround the first step to be taken but that once the barrier had been broken further progress could be made without so great difficulty.

Mr. Wilson believed the action would be consistent with other more important decisions made as to the imminence of war.

The President noted that the United States undertakes spiritual, military, and material programs in foreign affairs. He believed that the standard of judgment in regard to such material programs as are undertaken should be essentially that of "net advantage".

Mr. Hoover felt it necessary to note that this action by the United States would run in the opposite direction to the things we have been encouraging on other countries in the question of trade with Communist countries.[3] Mr. Allen Dulles spoke to the same effect with regard to sales of rice to Communist China by Far Eastern countries.

The President commented that all facts in the matter did not seem to have been available for discussion, and he directed that the State Department examine the question more closely before any action was taken.

Sec. Benson questioned whether this outcome affected existing policy for selling soy beans for dollars to satellites of Russia. The President believed they should be sold to any country in the world for dollars or on a barter basis.

[Here follows discussion of other matters.]

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[3] In a memorandum dated Dec. 16, 1954, Deputy Assistant Secretary for Economic Affairs Kalijarvi recommended to Acting Secretary of State Hoover that at the Dec. 17 Cabinet meeting "you reiterate the Department's position with respect to this question [sale of agricultural surplus to the Soviet Union], namely, that there is no foreign policy obstacle to transactions in surplus commodities with Curtain countries; and that the public relations aspects of the problem in the U.S. are the primary concern of other agencies." (411.0031/12-1654)

UNITED STATES FOREIGN INVESTMENT AND ECONOMIC DEVELOPMENT POLICY[1]

340/4-2252

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) and the Assistant Secretary for United Nations Affairs (Hickerson) to the Secretary of State[2]

CONFIDENTIAL [WASHINGTON,] April 22, 1952.

Subject: U.S. Role in Executing General Assembly Decision on International Development Fund

Discussion:

At its last session[3] the United Nations General Assembly, by a vote of 30–16, instructed its Economic and Social Council to prepare and submit to the next GA a "detailed plan for establishing, as soon as circumstances permit, a special fund for grants in aid and for low-interest, long-term loans to underdeveloped countries . . . to finance non-self-liquidating projects which are basic to their economic development."[4] This is perhaps the most important GA resolution which has been adopted against the strong opposition of the U. S. The vote represents a clear cut split between the so-called developed and underdeveloped countries.

If ECOSOC assigns the job of preparing the blueprint to the Economic Committee, on which all ECOSOC members are represented, the U.S. will of necessity participate in drafting the blueprint. If the job is assigned to a smaller committee of government representatives, the U.S. will certainly not ask to be represented. What should the U.S. position be, however, if we are urged by others to

[1] For previous documentation related to this subject, see *Foreign Relations*, 1951, vol. I, pp. 1225 ff.

[2] This memorandum was not sent forward, although Deputy Assistant Secretary of State for Economic Affairs Linder drew upon it in making his comments at the Secretary's Staff Meeting of May 13, 1952. For the notes of the Staff Meeting, see p. 235.

[3] The Sixth Session was held in Paris Nov. 6, 1951–Feb. 5, 1952.

[4] General Assembly Resolution 520 (VI), passed Jan. 12, 1952; for text, see U.N. General Assembly, *Resolutions adopted by the General Assembly during its Sixth Session, 6 November 1951 to 5 February 1952*, Supplement No. 20 (A/2119). Convenient summaries of all resolutions concerning economic development issues approved in the Sixth Session are contained in the *United Nations Bulletin*, Feb. 1, 1952, pp. 118–128, and Mar. 1, 1952, pp. 225–227.

Ellipsis in the source text.

serve despite our known opposition to the establishment of an international grant-in-aid program?

1. The chief reasons for accepting appointment to an ECOSOC committee to draw up the blueprint requested by the GA are:

(a) As a matter of general policy, the U.S. should accept majority decisions of UN members, particularly where they do not require legislation or appropriation. We should therefore be willing to contribute our best technical advice if it is solicited for blueprint drafting;

(b) Even though under present conditions we would vote against the plan in the GA, we still have an interest in getting the best possible one presented to the GA by the ECOSOC;

(c) A refusal on the part of the U.S. might lead to similar refusals on the part of Belgium, Canada, Sweden and the United Kingdom. A general boycott on the part of the developed countries, for which the U.S. would doubtless be blamed, would hurt us and weaken the UN (Mrs. Roosevelt,[5] among others, feels particularly strongly on this point.);

(d) A U.S. refusal, followed by acceptances on the part of other developed countries, would focus attention on our isolated position. The U.S.S.R. and the underdeveloped countries would make heavy propaganda capital out of the situation;

(e) There is ample precedent in the UN for participation in program drafting without subsequent commitment as to contribution. Compare, for example, the number of countries that have participated in the arrangements to resist aggression in Korea with the number that have provided troops.

2. The advantages of refusing to help draft the blueprint are:

(a) It avoids the paradoxical position of participating in the creation of something to which we are at the present time basically opposed, a position which is bound to give rise to serious conflicts among the backstopping agencies in Washington;

(b) It increases the probability that we will be able to oppose the final product; the less we have to do with its preparation, the less satisfactory it is likely to be from our point of view;

(c) It softens the let-down and irritation if and when we vote against the blueprint in the GA; no matter how much explaining we will have done, our delegate will find himself somewhat compromised if the U.S. has participated in the drafting group and other representatives have made an effort to accommodate their views to ours.

3. A possible middle ground would be for the U.S. to refuse to participate but privately to encourage Canada and Sweden to do so. This would avoid a general boycott by the developed countries and would leave us a freer hand. It is hardly in keeping, however, with our position in the world today.

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[5] Eleanor Roosevelt.

4. On balance, therefore, we believe that the U.S. should not refuse to serve on the committee if requested by others to do so.

5. Before the matter of committee composition is discussed by ECOSOC, the U.S. Representative should make clear our view that circumstances do not permit the establishment of a grant fund at this time and that, in principle, the U.S. has serious reservations about the feasibility of internationally-administered grant aid for economic development. If the U.S. is nevertheless named to the committee, the U.S. Representative in the committee should give technical advice, avoiding as best he can the implication that the U.S. would support the establishment of a grant fund if his advice were followed.

6. To keep Congress in the picture, Mr. Lubin[6] as U.S. Representative to ECOSOC, should discuss informally with Senators Lodge and Sparkman[7] and Representatives Mansfield and Vorys,[8] the proposed U.S. role in preparing the blueprint.

Recommendation:

In view of the controversial character of the subject and the widespread interest in it, you may wish to inform the President of the proposed position, provided, of course, you agree with it. The Treasury and certain other agencies probably feel that the U.S. should have nothing whatsoever to do with preparing a blueprint on the ground that participation cannot help but compromise our ultimate stand. From a foreign policy viewpoint, however, we simply are not free to remain aloof. We have tried persistently to strengthen the UN and have castigated the Russians for refusing to accept decisions of the GA majority.

[6] Isador Lubin, U.S. Representative in the Economic and Social Council (ECOSOC).

[7] Henry Cabot Lodge, Jr. (R.–Mass.), and John J. Sparkman (D.–Ala.), members of the Senate Foreign Relations Committee.

[8] Mike Mansfield (D.–Mont.), and John M. Vorys (R.–Ohio), members of the House Foreign Affairs Committee.

340/5-252

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) to the Under Secretary of State (Bruce) [1]

CONFIDENTIAL [WASHINGTON,] May 2, 1952.

Subject: International Grant Fund for Economic Development

About two weeks ago I mentioned to you the General Assembly resolution on an international grant fund for economic develop-

[1] Drafted by J. Robert Schaetzel, Special Assistant to the Assistant Secretary of State for Economic Affairs.

ment. You said at that time that you would be interested in getting more information on this problem and that you felt it would be particularly useful to have the matter brought to the attention of the Secretary. The attached draft position paper, which will guide our representative in the ECOSOC, outlines the problem and suggests courses of action the United States should take to meet it. This position paper as it now stands has the approval of the interested offices, namely, UNA and E.

What I would like to suggest is that, after you and the Secretary have had a chance to go over this paper, it be placed before the Secretary's Tuesday or Thursday 9:30 meeting for discussion. This is going to be a lively problem for a number of years and it will certainly be useful if the principal officers in the Department are informed regarding the line that will be taken on the problem at ECOSOC and the subsequent UN meetings.

[Attachment]

CONFIDENTIAL [WASHINGTON,] May 2, 1952.
SM D–2

POSITION PAPER ON GENERAL ASSEMBLY RESOLUTION TO ESTABLISH GRANT FUND FOR ECONOMIC DEVELOPMENT[2]

Problem:

The General Assembly has asked ECOSOC to prepare and report to the next General Assembly in September 1952 a "detailed plan for establishing as soon as circumstances permit a special fund for grants in aid and for low-interest, long-term loans to underdeveloped countries—to finance non-self-liquidating projects" in underdeveloped countries. See attached resolution.[3] What position should the United States representative take at ECOSOC on this matter?

Recommendations:

(1) The United States delegate should state forcefully the United States position on an international grant agency: (a) circumstances do not permit the establishment of an international grant fund at this time; (b) the United States has serious reservations about an international grant fund for economic development; (c) however, ECOSOC has a job to do and should do it.

(2) The United States representative should concur in the assignment of the task of preparing the blueprint to the Economic Com-

[2] Drafted by Ruth S. Gold of the Investment and Economic Staff, Bureau of Economic Affairs.

[3] Not found with the source text.

mittee of the Economic and Social Council or to a smaller *ad hoc* working party which the Council might set up. In the latter case the United States should be willing to serve on the working party if it is asked to do so.

(3) In the Economic Committee or the working party, the United States representative should give his best technical advice, but should not press his views, and should avoid as best he can the implication that the United States would support the establishment of a grant fund if his advice were followed.

Background:

Over the last five years, pressure has been building up in the UN for the creation of an international agency to distribute grant aid for economic development. It was given impetus by the Marshall Plan, by the low rate of IBRD lending, and the low level of private foreign investment (except for petroleum); more recently it has been given impetus by the Point IV program ("technical assistance and capital must go hand in hand"); by the report of the Rockefeller Committee;[4] by the report of the Group of Experts on "Measures for the Economic Development of Underdeveloped Countries";[5] by the Colombo Plan;[6] by the expressed sympathy of IBRD officials for international grant aid to complement loan aid; and, in particular, by the United States Government bilateral program of grant aid to accelerate economic development in selected countries.

The United States Government tried to deflect the pressure as it came. It differentiated reconstruction aid with its established time limit from capital for long-run economic development. It pointed to

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[4] The Rockefeller Committee, formally the International Development Advisory Board, submitted its report, *Partners in Progress*, to President Truman on Mar. 7, 1951. The Committee, chaired by Nelson A. Rockefeller and consisting of representatives from business, labor, and academia, recommended the prompt creation of an international development authority. For additional information, see *Partners in Progress, A Report to the President by the International Development Advisory Board* (Washington, March 1951).

[5] The Group of Experts was appointed by the U.N. Secretary-General to prepare a report on unemployment and underemployment in underdeveloped countries. The Group, which elected as chairman George Hakin, Counselor of the Lebanese Legation in Washington, included Alberto Cortez, Professor of Economics, National University of Chile; D.R. Gadgil, Director of the Gokhale Institute of Politics and Economics, India; W. Arthur Lewis, Professor of Political Economy, University of Manchester, England; and Theodore W. Schultz, Chairman of the Department of Economics, University of Chicago. The report recommended the establishment of an international development authority with the power to make grants to underdeveloped countries. It was published by the United Nations in May 1951, under the title, "Measures for the Economic Development of Under-Developed Countries."

[6] The Colombo Plan was a program of economic development for South and Southeast Asia initiated by the British Commonwealth in 1950. The program went into effect on July 1, 1951 and lasted six years until June 30, 1957. For a discussion of the Plan, see Wilfred Malenbaum, "The Colombo Plan: New Promise for Asia," Department of State *Bulletin*, Sept. 22, 1952, pp. 441-448.

the available unused resources of the Eximbank and the IBRD, as well as the large volume of development financing actually taking place. It urged the IBRD to take a more aggressive interest in economic development and it offered technical assistance to help countries plan projects suitable for bank lending. It undertook measures to stimulate private capital flow and urged underdeveloped countries to do likewise.

Over the last two years, however, the ground has shifted. In UN debates, it was agreed that loan funds may be adequate for "bankable" projects but it was argued by proponents of an international grant agency that there is need for external grant aid to finance the "low-yielding, slow-yielding, social and economic overhead projects" basic to economic development which cannot be financed by bank loans in the volume needed because they are "non-self-liquidating". At the same time, given its own grant aid programs, the United States Government acknowledged in public forums that for certain countries and under certain circumstances, grant aid may be necessary to give initial impetus to the development process. The case for grant aid for economic development having been made in theory by the representatives of the developed as well as the underdeveloped countries, and being supported in fact by the action of the United States Government itself, pressure to establish an international grant agency as the more appropriate medium for making such aid available became almost irresistible and culminated in the passage of the General Assembly resolution, by a vote of 30–16, instructing ECOSOC to prepare a blueprint of an international fund so that such a fund could come into being as soon as circumstances permit.

The underdeveloped countries want an international grant agency for many reasons. Not all who voted for the blueprint want it for the same reasons. Some want easy money easily; some want it without offense to their national sensibilities; and some are actually fearful of entanglement through bilateral aid. In the main, the reasons are as follows: (1) They believe the total volume of grant aid would be substantially greater if there were an international grant agency and the process of economic development accelerated thereby; (2) They want a voice in setting the terms and conditions of aid and in the distribution of the funds; (3) They want international recognition of the principle that the developed countries have an obligation under the UN Charter to provide grant aid for economic development, and they want to embody this principle in an institution; (4) They want a "neutral" intermediary between the donors and themselves so as to avoid political entanglements (This is particularly important to those who fear that bilateral aid may diminish their sovereignty or line them up in the cold war. The

Battle Act,[7] for example, has embarrassed several recipients); (5) They want to strengthen the UN by giving it a more active and positive role in promoting economic development.

The United States has resisted an international grant agency because: (1) We doubt that there would be substantial and effective contributions from other UN members with the result that the United States would have to put up virtually all the funds; (2) We believe an international grant agency would not be an effective instrument to promote economic development. It could well turn into a log-rolling operation with everyone sharing in the pie regardless of need, domestic effort, or capacity to use aid effectively (These are not necessary attributes of an international grant agency but they are the probable outcome); (3) We do not want to provide grant aid as a matter of obligation. We are prepared to do it as a matter of national self-interest; (4) We want to use grant funds selectively. Some countries are more important to us than others; (5) In the present climate, the United States Congress would be unlikely to vote funds for an internationally administered grant fund.

In public forums we have emphasized the first and last of these arguments. We have stated that (a) no organization can be truly international unless many countries make substantial and effective contributions, and (b) given the defense effort, the United States is not prepared to increase the scale of its aid at this time. Since all major potential contributors have declared themselves unable or unprepared to contribute at this time because of other commitments, we have argued that this is not the time to set up a fund or the blueprint of a fund. We have never stated that under no circumstances would we support the establishment of an international grant agency.

The effect of our resistance has been to widen the rift in the UN between developed and underdeveloped countries and further to solidify the so-called Asian-Arab bloc on an issue in which there is growing popular interest. This rift exists even though these same countries are receiving direct bilateral assistance from us. We have, however, not regarded these political effects as critical enough to warrant a reversal of our position. We are presumably prepared to continue our opposition to the establishment of an in-

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[7] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213) sponsored by Representative Laurie C. Battle of Alabama and enacted Oct. 26, 1951. It provided for the suspension of U.S. economic aid to nations supplying strategic materials to Communist nations. For text, see 65 Stat. 644.

ternational grant agency, and to seek by other means, including bilateral aid, to induce support for United States objectives.

Discussion:

Our job at ECOSOC is:

1. To state as forcefully as we can our position on an international grant agency for economic development, and

2. Notwithstanding our opposition to the establishment of an international grant fund, to participate to the extent required by our membership in ECOSOC in carrying out the assignment from the General Assembly.

With regard to the United States position on an international grant agency, the United States delegate should enlarge the range of arguments he uses in opposition to such an agency to include valid arguments of principle as well as the already stated arguments of timeliness, as follows:

(1) Not only is the time not propitious to establish a grant fund because there is no evidence that capital-exporting countries are prepared to contribute at this time, but

(2) The United States has serious reservations about an international grant agency at any time:

(a) Grants are a form of extraordinary or emergency aid while economic development is a long-run continuing process. There is no terminal date at which the job will be done and no ceiling on the amount that can be used. An international agency to distribute grants for economic development would normalize and institutionalize such aid and tend to make it a permanent feature of international cooperation. Grant aid would be regarded as a continuing obligation on the donors.

(b) Grants are gifts and not a normal medium of commerce among nations. Governments that dispose of public funds in the form of gifts abroad should retain the right to select the recipients, and control the distribution, of these public funds. The United States Government, for example, cannot be expected to ask its taxpayers to make gifts to governments whose major preoccupation is to undermine the United States.

(c) There are very few satisfactory objective criteria for allocating a limited volume of grant funds among claimant countries. How determine that a hospital in country X is more important than a road in country Y? Because judgments in this field must, at certain critical points, be fairly arbitrary, there is some danger that an international grant agency would follow the simple path of log-rolling.

With regard to the preparation of the blueprint, ECOSOC may assign the task to the Economic Committee, which is a Committee of the Whole on which all ECOSOC members are represented. Such an assignment would avoid the necessity of the United States

taking a position on participation in the work of blueprinting. From this point of view this solution would be preferable.

On the other hand, there is strong feeling among other delegations (particularly the UK and Canada) that a working party would be better. In such a smaller committee the discussion could be better kept under control. Consequently, an effort will be made to promote a small working party.

The United States should not take a stand on this issue. In the unlikely event that ECOSOC assigns the task to a working party of government representatives, the United States should be prepared to serve if it is asked to do so.

Whatever happens, the United States representative will have the difficult job of presenting our views on the structure and functions of an international organization that we are not prepared to support. Nevertheless, we do have views in this matter which should be stated because they may mean the difference between a potentially effective and responsible institution that is truly international (even without our participation) and a wasteful operation. The United States representative should give his best technical advice, therefore, but should not press his views and should avoid as best he can the implication that the United States would support the establishment of a grant fund if his advice were followed.

A separate position paper will be needed to give more specific guide lines to the United States representative on the Economic Committee or working party on such matters as the nature of the contributions, the relations of grants to loans, of management to members, the extent of local participation, etc.

Secretary's Memoranda, lot 53 D 444, "January-June 1952"

Notes of the Secretary's Staff Meeting, Held at the Department of State, 9:30 a. m., May 13, 1952[1]

SECRET

SM N-31

[Here follows discussion of the Korean military situation, Communist propaganda activities, the Koje-do incident, Brazil, Bolivia, Panama, Peruvian tuna, and Chilean copper.]

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[1] The Secretary of State's Staff Meetings, held two or more times a week, were generally attended by the Under Secretary, the Assistant Secretaries, and members of the Secretary's staff. Topics discussed included a wide range of policy issues.

Position Paper on General Assembly Resolution to Establish Grant Fund for Economic Development (SM D–2)[2]

11. Mr. Linder reviewed the background of the General Assembly Resolution to establish a grant fund for economic development. He indicated how this Resolution was passed over our opposition in the General Assembly. The question now is the degree to which we should participate on work of the Economic Committee or a working party which might be charged with developing a blueprint for such a fund. He pointed out that the Resolution probably would go to the Economic Committee, which is a Committee-of-the-Whole, and, if it goes there, there probably would be no question than that we would participate unless we walked out of the session. If the matter is referred to a special committee, the question is whether we should participate. Mr. Linder reviewed the arguments on both sides of this question. He emphasized that if we refuse to participate, this will provide enrollment propaganda for those who oppose the U.S. In any event, we would make our position clear that even if we do participate in the drafting of a blueprint, we could not contribute money for the establishment of this special fund. E and UNA have agreed that this should be our position. If the Secretary agrees, it is planned that the Department would consult with Senators Sparkman and Lodge, and Congressmen Vorys and Mansfield. Mr. Linder also recommended that this problem be mentioned to the President and the reasons given for our decision. It is likely that the Treasury Department will resist any participation on our part. Mr. Linder reviewed the main arguments for the Secretary in favor of participation: propaganda value for our opponents, holding the UN together, and preventing a division between developed and underdeveloped countries.

12. The Secretary asked what would happen after such a blueprint was drawn up and reported by the committee. Mr. Linder stated that we would make it clear throughout the development of this plan that, if and when it is reported to ECOSOC, we would not provide money for such a fund.

13. Mr. Miller suggested that we, in effect, have made a basic Government decision that we should participate in grant aid programs. If this is the case, would it not be wise to regularize such programs through the establishment of such a fund? Mr. Miller also noted that Mr. Rockefeller's report, "Partners in Progress", proposed such a fund and this proposal has been picked up recently by Congressman Javits. Mr. Miller felt that there was danger in our position if we participated in the development of a blueprint when, at the same time, we deny that we are going to support the

[2] Dated May 2, 1952, p. 230.

establishment of such a fund. Mr. Linder stated that we can always change our mind on the establishment of such a fund. He felt that we could not get agreement in the Government or get the money granted from the Congress to assist in establishing this fund. Mr. Miller felt that if this were true, we should not participate in any way in the establishment of a blueprint. He asked for a report on the status of the Rockefeller Report. Mr. Linder stated that recommendations in the report have apparently died, and Mr. Johnston's approach now is that he wants demonstration programs in two "typical countries".[3] Mr. Andrews added that the IDAB, in effect, rejected the Rockefeller Report at its last meeting.

14. Mr. McFall stated that it is extremely important to have consultations with appropriate Senators and Congressmen on this question. He felt that it might be possible at some stage to have a small program along the lines suggested for such a grant fund.

15. Mr. Linder gave further arguments in opposition to the establishment of a grant fund for economic development. He pointed out that grant aid should be given bilaterally and should not be given on the basis of equal shares for all. It is only natural to assume that we would want to control the granting of money to individual countries and the other developed countries would want the same. The Secretary felt that if our basic position is not to participate in the establishment of a fund, we should make every effort to prevent the establishment of this fund. It was pointed out that we made such efforts in the General Assembly and we were defeated. We have made our position clear and would continue to do so when this proposed fund is under consideration by the committee. In response to a question by the Secretary, Mr. Linder stated that Mr. Lubin could continue to advise the committee of our hopes for a sensible plan. Mr. Hickerson restated the problem. He pointed out that the basic question is whether we should decline if asked to serve on a committee for the drafting of a blueprint for a grant fund. If we served, Mr. Lubin would have a very minor role. It is assumed that the committee would find that the establishment of a fund without US participation would be unrealistic.

16. Dr. Compton reviewed some of his background on this problem. He pointed out that Santa Cruz[4] wanted to establish a technical assistance program coupled with a capital fund. He reviewed our position in connection with this proposal. With respect to the

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[3] Eric Johnston, Chairman of the International Development Advisory Board, presented his ideas in an address before the National Conference on International and Social Development in Washington on Apr. 9, 1952. Excerpts of the speech are printed in the Department of State *Bulletin*, May 12, 1952, pp. 747–751.

[4] Dr. Hernán Santa Cruz (Chile), President of the U.N. Economic and Social Council, Feb. 20, 1951–May 20, 1952.

problem at hand, Dr. Compton felt that it would be very difficult for Mr. Lubin to participate in the drafting of the blueprint if we oppose the establishment of a fund. He pointed out that at one time, Mr. Vorys was sympathetic to a one-third contribution for such a fund probably realizing that such a fund could not be established if the US only contributed one-third. In conclusion, Dr. Compton felt that if we participate in the drafting of a plan, it would take on the color of a "U. S. plan".

17. Mr. Andrews suggested that we might switch the attack toward the establishment of an International Bank and Development Fund. He felt that if we are going to give away money through grant aid programs, we should do it ourselves. He believed that we were in an impossible position on this problem. He had some question on whether we should participate in the blueprinting of a fund when we were in opposition to the establishment of such a fund. Mr. Linder commented on Mr. Andrews' statement on the International Bank and Development Fund. He pointed out that the Bank was asked by ECOSOC for its comments on a sister institution which would make loans with no guarantee. The Bank has prepared a report, and it is possible that Mutual Security money will be available for a contribution to the Bank for such purposes. However, before this is done, we will ask the Bank to draw up specific plans for such an institution. He felt that the problems between the General Assembly Resolution for a grant fund and the sister institution referred to by Mr. Andrews were different and should be handled separately.

18. In response to a comment by the Secretary, Mr. Linder pointed out that we would make clear at every step that we would not contribute money to such a fund. He stated that the UN may never get to the point of asking for contributions since the proposal may die in committee or in ECOSOC. Mr. Andrews felt that if we are going to drag our feet on the establishment of a fund, we might just as well do so at this time. The Secretary was not prepared to make a decision as the result of this discussion, especially in view of some differences of opinion. Mr. Bruce felt that we could probably get by with the position recommended by E and UNA. The Secretary believed that we should have free consultation with the Hill before any decision is made. Mr. Nitze stated that this is only a tactical question, and we are not asking Congress for money. He felt that if we go to Congress for consultation, we should have a definite opinion on what we believe we should do.

19. The Secretary concluded that our representatives should discuss the problem with appropriate Senators and Congressmen, and tell them of the recommendation which has been made to the Secretary. They should note the differences of opinion in the Depart-

ment and that at the present moment the Secretary is thinking about the problem and would like to have the views of these Senators and Congressmen.[5]

[5] At the Secretary's Staff Meeting of May 20, 1952, Assistant Secretary McFall stated that Lubin and other members of the Department had met with Congressional representatives who had agreed that the United States should participate in the discussions on the establishment of the fund but should make it clear that it could not contribute to the fund if it were established. (Secretary's Staff Meetings, lot 63 D 75)

NAC files, lot 60 D 137, "Minutes"

Minutes of the 192d Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, May 22, 1952[1]

CONFIDENTIAL

Secretary John W. Snyder (Chairman), Treasury Department
Mr. Willard L. Thorp, State Department
Mr. Jack C. Corbett, State Department
Mr. J. J. Stenger, State Department
Mr. J. Thomas Schneider, Commerce Department
Mr. Robert E. Simpson, Commerce Department
Mr. William McC. Martin, Jr., Board of Governors, Federal Reserve System
Mr. Lewis Dembitz, Board of Governors, Federal Reserve System
Mr. Herbert E. Gaston, Export-Import Bank
Mr. Bernard Bell, Export-Import Bank
Mr. Edward Lynch, Export-Import Bank
Mr. Victor F. Hasenoehrl, Export-Import Bank
Mr. Harlan Cleveland, Mutual Security Agency
Mr. Melville E. Locker, Mutual Security Agency
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. Walter C. Louchheim, Jr., Securities and Exchange Commission
Mr. Andrew N. Overby, Treasury Department
Mr. George H. Willis, Treasury Department
Mr. Elting Arnold, Treasury Department
Mr. George Bronz, Treasury Department
Mr. Henry J. Bittermann, Treasury Department
Mr. William H. Wynne, Treasury Department
Mr. C. Dillon Glendinning (Secretary)
Mr. C. L. Callander, NAC Secretariat
Mr. Sidney B. Wachtel, NAC Secretariat
Mr. James W. Westcott, NAC Secretariat

[1] Regarding the establishment and functions of the National Advisory Council, see footnote 2, p. 306.

[Here follow a table of contents and discussion of proposed Export-Import Bank loans to American and Foreign Power Subsidiaries and the Paulista Railway in Brazil.]

2. Position Paper Concerning the International Finance Corporation

Mr. Glendinning stated that the management of the International Bank has recently completed its report to ECOSOC on the proposal for an International Finance Corporation, and that the report is to be considered at the coming session of ECOSOC. The Bank's report,[2] which is framed in general terms, concludes that there is an "important gap in the existing international financial machinery for financing economic development" in that there is no provision in the existing machinery for equity financing. The report proposes that an International Finance Corporation would make equity investments and loans not guaranteed by governments, and suggest that the financing techniques might cover the entire range of securities, including straight bonds and preferred shares of stock. The report indicates that the extent to which such a Corporation would succeed in generating a flow of private equity capital can be determined only by experience. The Bank's management feels, however, that an International Finance Corporation would probably be able to stimulate the growth of private enterprise.

Mr. Glendinning observed that the United States Government will be expected to take a position on the Bank's report in the ECOSOC meetings, and that the paper under consideration (NAC Document No. 1308)[3] was prepared as a proposed position paper. In summary, the draft position paper recommends that the United States delegate should welcome the report of the Bank and that the delegate should state that the U.S. welcomes a full discussion of the proposal. The Staff Committee felt that there will be pressure in ECOSOC for further development of the proposal, and wanted to make sure that such further study would be done in the International Bank rather than in ECOSOC. The recommended position would instruct the U.S. delegate to take a position along these lines.

Mr. Glendinning called attention to the alternative language in the position paper, requesting the IBRD either to "draft a charter" or "formulate proposals" for an IFC. He also called the attention of the Council to the paper submitted by the Securities and Exchange

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[2] International Bank for Reconstruction and Development, *Report on the Proposal for an International Finance Corporation* (Washington, 1952). It was also distributed as U.N. Document E/2215, May 1, 1952.

[3] Dated May 13, 1952, not printed. (NAC files, lot 60 D 137, "Documents")

Commission,[4] which recommended the adoption of the following language:

"The United States Delegate should:

"1) State the readiness of his Government to give consideration to a draft of a charter for the International Finance Corporation, provided sufficient other members of the Bank are also interested, so as to assure that there would be an adequate initial capital and a reasonably extended area of operations to warrant further exploration of the proposal, and

"2) Recommend that if these conditions are met, ECOSOC should express the hope that the Bank will draw up a charter for an IFC for consideration by the Board of Governors of the Bank in September."

Mr. Glendinning continued that the representative of the Securities and Exchange Commission on the Staff Committee had submitted this language with the approval of the Commission. The two alternatives in the position paper were submitted by the rest of the members of the Staff Committee. Thus, the question is whether to adopt the SEC language or one of the two alternatives in the draft paper.

Mr. Thorp remarked that State Department's primary concern is in getting this proposal into the International Bank, on the ostensible grounds that in the field of finance the Bank's Board is much more competent than the political representatives in ECOSOC and the General Assembly. In adopting such a position in ECOSOC, the U.S. delegate should not refer to the differences in voting arrangements as between the Bank and ECOSOC, but should argue that because this is a technical problem the Bank is the proper place to consider it.

With regard to the SEC proposal, Mr. Thorp commented that he didn't disagree with the first paragraph. However, he was concerned by the specific instruction that the IFC charter should come before the Board of Governors of the Bank in September. He questioned the desirability of saying that the Board of Governors should discuss the matter in September. The language in the position paper, "at an early date," appeared to be preferable.

The Chairman agreed it would be expecting too much to require a charter to be completed by September, because setting up an international financial organization isn't done overnight.

Mr. Cleveland said that the position paper is a good one, and the MSA believes the U.S. Government should go this far in supporting further exploration of the matter. He saw little difference in the language of the three alternatives.

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[4] Staff Document No. 582 (revised), Supplement No. 1, May 6, 1952 (NAC files, lot 60 D 137, "Documents").

Mr. Cleveland indicated that it might be interesting at this time to summarize the Congressional situation as a result of the adoption of Congressman Javits'[5] proposal by the Committee on Foreign Affairs of the House of Representatives.[6] There have been consultations with Mr. Javits within the last few days with the objective of making the language of his amendment more flexible. The two changes under discussion were (1) to add the words "to stimulate economic development" to the purposes of the amendment, and (2) to delete the specific reference to the International Finance Corporation as an affiliate of the International Bank and to substitute the words "any international financing organization created to further the objectives of this section." This second change would be necessary, he explained, in case the organization is not called the "International Finance Corporation". It also makes possible the consideration of regional financial organizations of the same character. Mr. Cleveland added that these two changes appear to be satisfactory to Mr. Javits. The amendment makes $100 million available on a permissive "not to exceed" basis. It was generally agreed in the executive branch that no objection would be raised to the amendment in this form.

Mr. Schneider called attention to the fact that the reactions of business and investment communities on the prospects of success of the proposed corporation were not uniform. He quoted from the Bank's report:

"There was substantial difference of opinions, but it was the view of a considerable, probably the preponderant, group that there was good reason to believe that private investors would be interested in availing themselves of the facilities of the Corporation, and that the Corporation should prove an effective inducement to additional private investment in the underdeveloped areas.

"Among another group the proposal met with complete disfavor. This outright opposition was generally founded on the belief that public funds should not be used for equity investment in private enterprises. Many in this group expressed the view that, where the climate for investment is favorable, ample private funds will be forthcoming. In their opinion, where the climate is not favorable, neither public nor private monies should be invested. Others thought the proposal inherently unworkable; they believed that the public character of the Corporation would be incompatible with participation in private undertakings."

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[5] Jacob K. Javits (R.-N.Y.).

[6] Javits' proposal was in the form of an amendment entitled "International Finance Corporation" to H.R. 7005, which became the Mutual Security Act of 1952 (66 Stat. 141). This section provided that up to $100 million of the funds allocated for military, economic, or technical assistance could be used for the purpose of subscribing to the capital of an IFC. This amendment was not approved by the Senate and was subsequently deleted in the conference report (H. Report 2031). It was thus not included in the final bill passed on May 23, 1952.

Mr. Schneider noted that these opinions resulted from an informal survey of members of the investment communities in Belgium, Canada, France, Italy, the Netherlands, Switzerland, the United Kingdom and the United States. He said the Secretary of Commerce and he both agree with the unfavorable view, since nothing has been shown that warrants the establishment of an International Finance Corporation. However, he added that additional opinions from other investment communities could possibly alter the position of the Commerce Department.

Mr. Gaston was in full agreement with the views expressed by Mr. Schneider. He remarked that he had no reason to suppose that creation of a special fund of this kind, whether or not relying wholly on U.S. funds, would stimulate private investment in other countries. He pointed out that the Bretton Woods Agreement[7] established certain lines of action for the International Bank to follow, and that the Bank has been acting under the charter of that authority. He thought it premature to say that this charter and this scope of action is not going to be sufficient to meet the problems of international lending. Mr. Gaston thought it was strange that the International Bank would want to consider this matter, since it would involve the creation of a different sort of institution to make equity and unguaranteed investments—something the International Bank has not been empowered to do itself.

Mr. Martin said he concurred entirely with the views of Mr. Gaston and Mr. Schneider on this matter. The United States has been hearing about this type of investment for five or six years, he commented, but he had seen nothing concrete to support the idea.

The Chairman then brought the discussion back to the disposition of the position paper. He asked if the Council should follow the course suggested by Mr. Thorp and favor referring the matter to the Board of Governors of the International Bank.

Mr. Thorp observed that the problem is a strategic one. The State Department is not prepared to favor the establishment of an International Finance Corporation, but it has to deal with the fact the ECOSOC will be considering the Bank's report. ECOSOC will also be considering the proposal for an international grant authority. The State Department intends to take a firm position against the proposed international grant authority. There is divided opinion on the IFC proposal, however, and accordingly it was thought

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[7] In July 1944, the major nations of the world established a new international monetary system at Bretton Woods, New Hampshire, which was designed to provide a relatively constant exchange rate for international currencies. Both the International Monetary Fund and the International Bank for Reconstruction and Development were created at the Bretton Woods Conference. For documentation on the events surrounding the Conference, see *Foreign Relations*, 1944, vol. II, pp. 106–136.

desirable to have this matter considered further by the International Bank. State does not want the proposal considered further in ECOSOC.

Mr. Thorp thought it possible that an IFC might be successful. For example, there may be situations in which private investors would be interested, but not to the extent of providing all the capital. The marginal capital could be provided by this Corporation. If the plan works, he added, that would be fine; if not, there would be no harm done.

Mr. Gaston commented that the dollars would then be lost. Mr. Thorp disagreed, saying that if the idea did not work, the corporation would be liquidated. The Chairman observed that it has not been the practice to return money once it has been appropriated. Mr. Gaston continued that he believed the Council should express firm opposition to the Javits amendment to the Mutual Security bill, and should also express the opinion to ECOSOC that, after due consideration, the Council does not believe it feasible to establish an IFC.

Mr. Schneider concurred with this view, but thought there might be a more diplomatic way of expressing the position. He felt, however, that it should be made clear to the United Nations that up to this time the Council has serious doubts about the proposal. Mr. Thorp pointed out that the position paper raises a number of critical questions which would be best dealt with in the International Bank.

Mr. Overby noted that in the informal discussions of the problem in the Bank, the United States had sounded all the notes of caution that should be sounded, including the question of whether the proposed corporation would encourage or discourage private investment. A whole series of questions was raised, he continued, but the United States was the only country to voice them. The management was not swayed much by the questions. The report was made by the management of the Bank and has not been approved by the Executive Directors. Mr. Overby also remarked that he had testified on the IFC proposal before the House Foreign Affairs Committee, but had been unable to persuade Mr. Javits to omit this proposal from the bill. Since he had been unsuccessful both in the Bank and before the House Foreign Affairs Committee, Mr. Overby believed the Council should take a stronger position than the one in the present position paper, if the Council does not intend ultimately to favor the proposal.

Mr. Gaston believed that the tone of the paper was strongly favorable toward the IFC proposal.

Mr. Schneider recalled that the Mutual Security bill before the House requires MSA, TCA, the Commerce Department and the

State Department to develop a program for the encouragement of private investment abroad. These agencies have already started on this program. Mr. Schneider did not believe the Government should consider the proposed corporation unless the program fails.

The Chairman asked what position Mr. Schneider would take if the bill is passed by the House and the Senate, including the Javits amendment. Mr. Schneider answered that the executive branch should take a position now in opposition to the corporation. Mr. Martin agreed, and said that the Council should not attempt to postpone the issue.

Mr. Cleveland observed that there really are two different issues here, which are partly a matter of tactics. The tactics proposed by the Staff Committee with respect to the problem in ECOSOC is to keep the matter from being decided in ECOSOC by having it referred to the International Bank, where it can be discussed as a technical problem. MSA favors these tactics regardless of the eventual position of the executive branch on the proposal. U.S. opposition to the proposal in ECOSOC would induce a wave of sentiment there to refer the matter to the U.N. General Assembly, which would fit in with the desires and aspirations of the underdeveloped areas. Mr. Cleveland felt that regardless of the eventual U.S. attitude on the proposal for an International Finance Corporation, getting the matter out of ECOSOC should be a primary concern of the Council.

There is another problem, Mr. Cleveland continued, on the Congressional side. The proposal for an IFC is only one of a number of amendments to the Mutual Security bill. Mr. Wood* feels strongly that the Administration will be better off the fewer the amendments that are opposed. Since this particular amendment is permissive, MSA believes it would do no harm. No one contemplates that in fiscal 1952 the Administration would transfer $100 million of aid from one place to another. For this reason, MSA believes that the best tactics would be to refrain from opposing the amendment.

There is another strong tactical reason for not making a major issue of this matter in Congress this year, Mr. Cleveland added. Since it is not really known whether an IFC would be a sensible and useful arrangement to fill an apparent gap in international financing and development, it is worthwhile to give the International Bank an opportunity to work the proposal out more completely. For this reason he felt that the Council should reserve its position on the merits of the proposal until it has a specific plan before it.

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* Presumably C. Tyler Wood, Associate Deputy Director of the Mutual Security Agency.

Mr. Gaston expressed doubt as to the tactical wisdom of refraining from opposing an unacceptable proposal. If a request for equity financing is a good business proposition, it will be financed, if it is a bad business proposition, it will not be financed. The reason why private foreign investment is not larger is not the failure of foreign countries and international organizations to subscribe to equity capital, but is to be found in a great many obstacles relating to military and political situations and to commercial policies of foreign countries which deter private capital from making equity investment. Both the Export-Import Bank and the International Bank now encourage equity investment abroad, Mr. Gaston continued, because when a loan is made for a project, the investor has a certain amount of protection due to the participation of these two organizations.

Mr. Thorp observed that those are certainly strong arguments on this matter, and he saw no reason why any number of questions on the IFC proposal should not be raised in ECOSOC. However, in view of the problem of the political relationship of the United States with the underdeveloped countries, he believed the proposal would be considered better in the International Bank than in ECOSOC. If the United States goes into the ECOSOC meetings and declares itself flatly against the proposal, then it will be referred to the United Nations rather than to the Bank. The proposal will then be voted upon favorably in the General Assembly, which would put the United States in a continuously embarrassing position. Despite U.S. opposition, he explained, the United Nations can establish an institution that will be a thorn in the side of the United States, because people will want to know why this country is not interested in the institution.

Mr. Thorp reminded the Council that ECOSOC is under instructions from the General Assembly to develop a plan for an IFC. The Chairman pointed out that if the proposal could be moved into another agency, the United States would not have jeopardized its ultimate position.

Mr. Gaston expressed the view that the Council should prepare a position paper indicating very strong doubt that there is anything of value in the proposal. He believed the same representation should also be made to Congress. Since the United States was asked by ECOSOC to take a position on the proposal, Mr. Gaston did not see why it should refer a statement of its position back to the International Bank. The Chairman pointed out that the attempt would be to have the proposal referred by ECOSOC to the International Bank, after which the United States could take its position in the Bank. Mr. Overby agreed with Mr. Gaston that the position paper under consideration takes a favorable attitude

toward the proposal; but he also favored the idea of moving consideration from ECOSOC to the Bank.

Mr. Thorp believed that the U.S. delegate should raise questions in ECOSOC on those aspects of the proposal of concern to the United States, but should not take too strong a position against the proposal for fear of failing to get it into the Board of Governors. He then suggested that it would be a good idea to have a working party redraft the position paper in light of the present discussion. Mr. Martin agreed, provided the ultimate objective was to kill the whole project.

Mr. Thorp commented that the State Department was not prepared at this time to take a strong position either for or against the proposal, but wanted to see a more detailed proposal before taking any position.

The Chairman suggested that a working party revise the position paper for resubmission to the Council. In the meantime, he advised the Council members to give the matter considerable thought because of its extreme importance.

Mr. Overby questioned the advisability of the MSA proposal to change the Javits amendment by generalizing the reference to the IFC. Mr. Cleveland replied that the main purpose of the change of language was to avoid Congressional sanction of the proposal in advance of the ECOSOC meeting, so as not to tie the hands of the United States in ECOSOC. Mr. Cleveland pointed out that at the moment, the Council's record with respect to the Javits amendment consists of the non-committal letter sent by the Chairman to Mr. Javits. If the Council intends to get Mr. Javits to take his amendment out of the bill, a question of tactics needs to be considered.

Mr. Cleveland hoped it would not be recorded that there is a consensus of vigorous opposition to the IFC proposal in the Council. He said the MSA position is similar to that of the State Department.

Mr. Schneider questioned whether the Council should take any position with respect to the legislative proposal. Mr. Cleveland advised the Council that Mr. Harriman had told Mr. Javits that this was the kind of question under the jurisdiction of the Council, and that he would refer it to the Chairman of the Council. The Chairman then wrote to Mr. Javits saying the administration was interested in exploring the proposal but had taken no firm position on the matter. Mr. Cleveland concluded that there is a question now of whether the tone and substance of the letter to Mr. Javits should be changed during the present session of Congress.

Mr. Thorp commented that if the proposed amendment goes through in its present form, the U.S. position in ECOSOC would be

intolerable. The Chairman observed that if the amendment is passed by the Congress, the Council would be forced to take a firm position. Mr. Cleveland pointed out that the amendment is not contained in the Senate bill at the moment, but he thought Mr. Javits would try to have it introduced on the Senate floor.

The Chairman concluded that the Staff Committee should take another look at the problem, after which the Council would consider it again.

A/MS files, lot 54 D 291, "TCA/Pt. IV Reports, Briefing Statements"

Memorandum by the Deputy Under Secretary of State for Administration (Humelsine) to the Under Secretary of State (Bruce)[1]

[WASHINGTON,] June 9, 1952.

Subject: The Point 4[2] Program and the Technical Cooperation Administration

There follows a brief summary of some of the current problems which affect the conduct of the Point 4 program.

1. Program Scope and Philosophy

One of the major unsolved problems of the Point 4 program is the need for a clear definition of its scope and philosophy in relation to other United States foreign assistance activities. TCA continues to favor relatively restricted programs centering around the supply of technical services, directly related supplies and materials, and the training of foreign nationals, with major emphasis in the fields of agriculture, health and education. TCA has also stressed the desirability of a gradual, long-range approach, although it is willing to undertake an accelerated program of this same general type in more critical areas such as the Near East and South Asia. Finally, TCA has laid great stress on the non-military, constructive and humanitarian nature of the Point 4 program as contrasted with defense related economic assistance.

This concept was publicized by Dr. Bennett[3] with great success and its relatively low cost and "shirt sleeve" approach have un-

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[1] According to a handwritten notation on the source text, this memorandum, drafted by Carroll S. Hinman of the Management Staff, Bureau of Administration, was not signed but used as part of a briefing memorandum for the Under Secretary.

[2] The term "point four" was derived from President Truman's inaugural address on Jan. 20, 1949, in which he proposed, as the fourth point in his foreign policy program, that the United States extend the benefits of its technological and scientific advances to the underdeveloped world.

[3] Henry G. Bennett became the first Administrator of the Technical Cooperation Administration on Dec. 1, 1950. For an expression of his views, see "The Engineer and Point Four," Department of State *Bulletin*, July 16, 1951, pp. 107–111.

doubtedly contributed greatly to the substantial support manifested for Point 4 by Congressional and private groups which have been lukewarm or cool toward other elements of our national program for mutual security, particularly defense-supporting economic aid. One indication of Congressional feeling on this point was the recent action of the House in restricting the materials component of Point 4 programs to not more than three times the technical services component, and in cutting in half the non-defense supporting portion of the Administration's economic aid recommendation for Southeast Asia. (The restriction was removed in conference, and the cut partially restored.)

In spite of its undoubted political and popular appeal, this definition of Point 4 raises several very serious problems. In the first place, the stress laid on the non-military nature of Point 4 makes it more difficult to achieve adequate coordination with other elements of our total security program such as the development of vital materials abroad, and the gradualist emphasis creates problems of timing in relation to more immediate defense and political goals involved in the short range timetable for strengthening the free world.

In the second place, some of the arguments and efforts used in support of this Point 4 concept have played into the hands of those who were unsympathetic to the Administration's proposals for MSA–ECA economic assistance, so that the Executive Branch as a whole has been working to some extent at cross-purposes.

Thirdly, and perhaps most important, the present Point 4 concept, by definition, excludes relief activities, capital goods in any appreciable volume, and current supply and consumers' goods in general. Therefore, it leaves unanswered the problem of what to do when any of these purposes are considered to be necessary in the United States interest to cope with particular problems in those areas of the world where conditions are critical but defense ties with the United States are not close enough to justify a defense-supporting economic aid program under MSA authority. This dilemma has been answered in the case of the Palestine refugees by using the United Nations as the vehicle, and in the case of Israel, by special legislative authorization for a United States aid program. TCA has attempted to explain the proposed programs for India, Pakistan and Iran as exceptions to the general philosophy, but this has only served to make them vulnerable, as evidenced by the House action mentioned above. This same problem lies at the root of the controversy with respect to Ambassador Locke's[4] func-

[4] Edwin Allen Locke, Jr. was assigned to Beirut, Lebanon, on Nov. 15, 1951, as the Department's special representative for coordinating economic and technical assistance in the Near East, with the personal rank of Ambassador.

tions and program in the Near East. The whole matter of program philosophy and scope in the Near East and South Asia is a major issue between TCA and NEA.

This situation forces the United States to fall back on one of three alternatives, none of which are really satisfactory from the standpoint of total national interest:

(a) to have only a technical assistance program, even though political realities indicate the need for something more;
(b) to have two programs under two different administrative agencies, leading to possible confusion and rivalry in the field and double sets of country relations; and
(c) to have two programs with different legislative authorizations but administered by the same agency, TCA, which would be understandably confusing to the local governments and leaves the larger scale program vulnerable to the sort of Congressional attack which has just taken place.

The fourth and most logical alternative is ruled out under the present Point 4 concept and philosophy. That would be to use the Act for International Development[5] (with amendments if necessary) as the basic vehicle for United States aid programs in underdeveloped areas, with a scope broad enough to embrace whatever needs to be done in our interests in those areas, and with the content of each country program to be determined each year by Administrative and Congressional action on the basis of the actual needs and urgencies rather than by application of automatically limiting criteria.

Another aspect of this same general problem is the lack of emphasis in TCA on the investment and capital phases of economic development. While there is a Special Assistant to the TCA Administrator concerned with this problem, it has not been given adequate attention, nor is it much in evidence in country planning. A logical corollary of greater emphasis on the investment aspect of economic development would be closer ties between TCA and public lending sources such as the Export-Import Bank and the International Bank. This whole matter of the encouragement of developmental capital, particularly through private investment, is one in which the chairman of the International Development Advisory Board, Mr. Eric Johnston, is especially interested.

2. Program Execution

Another major problem which confronts TCA is the necessity for setting up the basic mechanics and processes to insure that after country programs have been approved, work actually gets under-

[5] Title IV of the Foreign Economic Assistance Act of 1950 (Public Law 535), enacted June 5, 1950; for text, see 64 Stat. 204.

way and progresses as speedily as the urgency of the situation demands and local conditions will permit. This really boils down to four things: defining specific responsibilities for action here and in the field; devising and instituting the necessary processes for project authorization, issuance of funds, recruitment and assignment of technician personnel, procurement and shipment of supplies and selection of trainees; working out the precise form and nature of cooperative institutions or dealings with host governments; and securing timely information and checks on program progress through a program reporting system.

While a good deal has been achieved in the last few months along all these lines, it has been through a large number of spot decisions by individual program officials, and there has been a general lack of systematic procedures, uniformly understood and applied—a lack particularly felt in the field. This has been due primarily to the lack of any central impetus on these points, in the absence of an Administrator and without a clearly defined central responsibility for these matters under an Assistant Administrator for Management. Both these posts have now been filled and intensive work is progressing on all of these fronts, with priority emphasis on information and instructions needed by people in the field. Three members of the Management Staff are working full time with TCA on this project.

3. TCA Relationships Within State Department

Under the general plan of reorganization approved last Fall, it was intended that TCA should function within the State Department as a semi-autonomous, straight line entity with full responsibility for program operational matters, with specific ties to the regional bureaus and, as appropriate, to other Department units for policy guidance and program review, and drawing on the Department's administrative facilities for administrative services to the extent that those facilities could effectively serve their program needs. The broad lines of this relationship are by now quite well understood in TCA and throughout the rest of the Department, but the specific application has occasioned considerable controversy and is not fully defined in all respects. The regional bureaus, particularly ARA, have tended to interest themselves and get into operational and administrative matters as well as their primary policy role. As mentioned above, TCA and NEA have had a major difference of opinion on policy itself in the Near East. TCA has sometimes leaned toward separatism to an unnecessary extent and has not always kept appropriate Department units informed of its actions and proposals. The administrative sections of the Department have been slow to grasp the extent to which the administra-

tive needs and requirements for the Point 4 program on such matters as budget and accounting, personnel administration, and procurement, require different policies and methods than those appropriate for other Departmental activities. A succession of incumbents in the position of Special Assistant for Mutual Security Affairs has delayed the working out of a mutual understanding as to the Special Assistant's responsibilities with respect to the Point 4 program.

With the exception of the TCA–NEA policy disagreement, most of these differences have been resolved or are nearing solution. There will, however, be a continuing necessity to restrain the TCA centrifugal tendency and the restrictionist tendencies in the rest of the Department. This is as much or more a matter of attitudes and mutual understanding than of specific directives or organizational arrangements. Mr. Andrews appears very cooperative and understanding on these as on most other relationship problems affecting TCA.

4. Field Relationships

There has been very considerable misunderstanding and confusion in the field as to the respective responsibilities and relationships of Point 4 Country Directors, Chiefs of Mission and other sections of the diplomatic mission. Essentially the problem has been to find workable middle ground between two extremes—one in which the Chief of Mission displayed relative indifference to the Point 4 program, did not give it active and vigorous support and treated the Country Director and Point 4 personnel as though their activities were remote from his responsibilities; and the other in which the Chief of Mission and other mission officials concerned themselves not only with major policy issues but extensively with operational and administrative details to an extent which seriously hampered the Country Director in executing his assigned functions.

To a large extent these difficulties seem to be traceable to misunderstanding stemming from lack of a clear Departmental directive specifying responsibilities and relationships desired. All concerned are in agreement that such a directive is badly needed; a draft instruction for this purpose has been drawn up in A/MS and is presently being cleared by the units concerned, principally TCA and the regional bureaus.

5. The Institute of Inter-American Affairs

The IIAA, a government corporation which has for ten years administered a program similar to Point 4 in Latin America, was brought into the Point 4 program by the Act for International Development and was intended under the reorganization of last Fall to become an integral part of TCA as its regional service for Latin

America. Although the IIAA is housed in the TCA building and submits its programs to the TCA Administrator for approval, the degree of integration actually achieved thus far is not great. It retains its separate administrative services, different procedures and sets of field instructions, and its own communication series. It has, however, instituted Country Directors to provide field integration for the several functional field parties which formerly reported individually directly to Washington. It has also moved, at the Washington level, to set up a program office to provide a more integrated regional approach. Finally, some IIAA people have moved to equivalent positions in TCA, thus providing a personal linkage at those points.

There are two principal reasons why integration has not progressed further: First, the embryonic condition of the TCA organization and administrative structure and its much greater dependence on the central State Department administrative facilities, which caused the IIAA to feel that the efficiency of its operations would be lessened by an actual merger of functions; and Second, a deliberate desire on the part of the President and Vice President of the IIAA to keep the Institute's operations self-contained and separate as far as possible as a matter of principle. At the same time, TCA, lacking a permanent head until recently, was unwilling to press the issue.

While a greater measure of integration is desirable and should be sought, the fact remains that the Point 4 program in Latin America is in being and moving along, whereas it is barely started in other areas. Therefore, it seems undesirable to waste much time and effort of key people on pressing for rapid and complete integration of IIAA into TCA with the possible risk of disrupting a going program, when the main and most critical job should require the pressing attention of TCA officials. There are certain specific points where IIAA practices and instructions need to be brought closer into line, such as communication practices and field relations of their Country Directors and field party chiefs to Chiefs of Mission. Mr. Andrews is aware of this problem, which is primarily an internal one for TCA, and he should prove capable of handling it.

6. Participating Government Agencies

Another Point 4 problem which has yet to be fully resolved is the appropriate role of the other government agencies participating in the program—Departments of Agriculture, Interior, Commerce, Federal Security Agency, etc. Under the original plan of administration, these agencies were actually delegated responsibilities for particular functional segments of the program—agriculture, health, education, etc. TCA allotted them funds and they then em-

ployed personnel, sent them out to the field, administered projects, received reports, etc. In practice this has not been satisfactory for two main reasons: First, because it resulted in a series of unrelated functional projects rather than a truly integrated country program; and Secondly, because the participating agencies insisted on performing the administrative support for these field projects in their Washington headquarters—handling of payroll, purchase requisitions, travel, etc. so that the technicians in the field lacked any definite knowledge as to just what the program budget was, where it stood, and the status of their supply requisitions, personnel actions, etc.

Because of this, one of the aims of the reorganization last Fall was to centralize authority over all aspects of the program more fully in the TCA Administrator, with the participating agencies acting as TCA agents for specific matters such as the recruitment of technicians or the processing of foreign trainees. The negotiation of these changes presented tactical problems which Dr. Bennett wished to handle in his own way and on which he was making considerable headway at the time of his death. However, a marked change of attitudes then ensued in the participating agencies, and little further progress has been made in really achieving a significantly tighter central control at the Washington level. There has been a formal redefinition of agency responsibilities but it does not constitute a great change from the previous picture.

The real test of this matter, however, lies in the field; the creation of the post of Country Director cannot help but go a long way toward a unified program administration, provided the agencies do not try to keep their people out from under his control. The best real hope for progress along this line, therefore, lies at present in strengthening the hand of Country Directors in the field rather than attempting further reshuffling of responsibilities in Washington. This is especially true because the new Administrator, Mr. Andrews, having previously been active in the program as a representative of one participating agency, the Department of Agriculture, is naturally not wholly convinced of the need of any greater centralization at the Washington level.

CARLISLE H. HUMELSINE

E files, lot 60 D 68, "International Finance Corporation, 1950–1957"

Memorandum by the Assistant Chief for Private Investments, Monetary Affairs Staff (Robinson)[1] *to the Director of the Office of Financial and Development Policy (Corbett)*

[WASHINGTON,] June 11, 1952.

Subject: Eximbank's attitude toward the IFC

At one point in the discussion of the International Finance Corporation position paper in the NAC Staff Committee, Mr. Bell of the Eximbank mentioned that such an institution might have certain harmful effects—although he did not mention them. In the course of a telephone conversation some days later I asked him to explain his comment. He did so by mentioning that the Bank had been troubled by the point frequently made in discussion that nothing would be lost by experimenting with an IFC. The Bank disagrees with this line of argument, largely because of the possible harmful effects which Mr. Bell outlined as follows:

(1) In the opinion of the Eximbank the IFC will not accomplish the objective of stimulating an increased flow of private capital to underdeveloped areas. Therefore, the establishment of an IFC cannot help but result eventually in disappointment and disillusionment on the part of those countries which would look to it for great things. To set up an international institution with this as a likely result is definitely harmful—presumably it would discredit international action in the financial field, to say nothing of the waste motion involved in establishing an IFC.

(2) The existence of an IFC might actually reduce the amount of private capital invested abroad. If capital is available from an IFC it may impair the incentive for private entrepreneurs to seek the additional capital they need from private sources. The Eximbank's feeling in this regard is strengthened by its observation that in a great many cases (if not most) where it refused to participate in financing projects presented to it by private individuals and firms, the needed capital was secured elsewhere and the projects went forward despite the Bank's non-participation. Hence had the Bank participated less private capital would have been used.

On the latter point I said that, in my opinion, if the IFC was to be merely another banking institution I thought that Mr. Bell's argument had some force. However, I added that my own favorable reaction toward the IFC idea was based on the assumption that it would undertake rather extensive promotional work; for example, in finding and developing opportunities for profitable investment in which it would actively endeavor to interest private investors—with the carrot of some financial participation if necessary. Mr.

[1] Hamlin Robinson.

Bell then queried whether there aren't a number of private investing firms which undertake to bring projects and capital together, and wondered whether an IFC would be able to do a great deal more than that. This is obviously something that will have to be explored when we eventually come to grips with the merits of an IFC, although I rather suspect that private activity of this kind is confined to the more developed areas.

Mr. Bell again deplored the fact that there had been no discussion whatsoever of the merits of an IFC, nor any attempt by those more favorable, to its establishment to convince the Bank that it could accomplish the stated objective. He indicated that he was glad to have discussed this matter further, as he feared others had assumed that the position of the Bank had been based on jealousy of the IBRD, for example, which Mr. Bell asserted is not the case.

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Memorandum by the Acting Assistant Chief of the Commercial Policy Staff (Weiss)[1] *to the Assistant Chief of Development Policy, Investment and Economic Development Staff (Rosa)*[2]

CONFIDENTIAL [WASHINGTON], June 17, 1952.

Subject: Developmental Assistance to Competing Foreign Industries

This memorandum is with reference to your query as to our attitude regarding the extension of assistance by the U.S. government for the development of industries abroad which might compete with American industries either in the U.S. market or in foreign markets.

As I indicated to you in our discussion of the problem last week, in our view we should not, as a general matter, refuse to give developmental assistance to a foreign industry merely because such an industry might compete with a U.S. industry. In our judgment a decision to assist the development of a foreign industry should be based primarily on whether the industry in question is an economic one or not, that is whether in the light of the resources available in the particular country the industry shows promise, once it has been given some initial assistance, of being able to stand on its own feet and compete against products from other sources of supply without artificial means of support. If the development of such an industry results in increased competition for American firms, that competition will simply have to be accepted as incident to the process of development. In fact, in view of the great diversification of

[1] Leonard Weiss.

[2] Joseph Rosa.

the American economy we must anticipate that manufacturing industries abroad are highly likely to be either directly or indirectly competitive with some U.S. industry.

In any particular case considerations other than those indicated above may have to be taken into account in determining whether to grant assistance to a competitive foreign industry. We would not be so unrealistic as to suggest, for example, that assistance be given in a particular case if it would result in such acute domestic pressures as to jeopardize one aspect or another of the U.S. Government's developmental program. Such cases will have to be examined individually and a judgment made as to what the appropriate course of action should be.

In support of the general thesis that developmental assistance should be given to foreign industries so long as they are economical even though such industries may compete with U.S. industries, I should like to call your attention to Section 403 of the TCA Act.[3] That Section provides that the test for the suitability of granting developmental assistance shall be "whether the assistance applied for is an appropriate part of a program reasonably designed to contribute to the balanced and integrated development of the country or area concerned." This test does not contain any injunction against assisting industries which compete with American firms. In fact, it to some extent implies the opposite since, in view of the highly diversified character of the United States economically as noted above, it would be extremely difficult to develop a program which would assure a "balanced and integrated development of the country or area concerned" without stimulating to some degree competition with American industry.

Finally, I should like to emphasize again one aspect of the problem which we discussed in my office, namely that we should avoid giving assistance to foreign industries which will be unable to maintain themselves on a long run basis without some form of artificial protection such as quotas, tariffs, or other restrictive devices. Assistance in such cases is not only undesirable for the obvious reason that it conflicts with this government's efforts to reduce the barriers to trade and to achieve a more economical and productive use of resources. It is also undesirable because it will create domestic criticism of, and will impair domestic support for, this government's policies and programs in the fields of trade, finance and economic development. We have already been subject to considerable criticism because of the extensive restrictions, largely stemming from balance-of-payments difficulties, which American business-

[3] Title IV of the Foreign Economic Assistance Act of 1950 entitled "Act for International Development."

men have encountered abroad. This criticism is bound to be intensified, and properly so in my judgment, if we give assistance to an uneconomical industry and then find ourselves faced with various types of restrictions against imports from the United States and elsewhere in order to protect the industry in question.

MSA–FOA Director's files, FRC 56 A 632, "Technical Cooperation"

Memorandum by the Legal Counsel for the Technical Cooperation Administration (Glick)[1] to the Deputy Legal Adviser (Tate)

[WASHINGTON,] January 28, 1953.

Subject: Some Major Policy Issues Now Under Discussion In The Point 4 Program.

I said to you the other day that several major policy problems in the Point 4 Program are likely to come to a head within the next few months, and that some of these will certainly reach your desk and Mr. Phleger's. You suggested that I give you a memorandum listing these problems and discussing each briefly. I shall be glad to discuss any of these in greater detail with you and Mr. Phleger whenever you wish.

1. Size of Grant Component in Point 4 Programs.

Ever since enactment of the Act for International Development in June 1950, there has been a controversy, within the Executive Branch, in Congress and among the public, over the size of the grants (in the form of machinery, equipment and supplies) that should be included in Point 4 programs. As you know, for a while the controversy included the legal question as to whether the Act itself authorized substantial grants and the nature of the limitations imposed by the Act on the use of such grants. That legal question has been answered in the memorandum you sent to Dr. Bennett on December 19, 1951[2] and in the supplemental memorandum that I gave to Mr. Andrews after the development of further legislative history on this point, on July 25, 1952.[2] (All of this material is collected in Legal Counsel's Opinion No. 2 and its attachments, which include a copy of your memorandum and a summary-digest of the Congressional materials on this question developed during 1951.) The answer we have given on the legal question is that grants of machinery, equipment and supplies may be included in Point 4 programs, within the limits of available appropriations, in order to provide demonstration materials for use by the techni-

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[1] Philip Glick.

[2] Not found in Department of State files.

cians sent by the United States to underdeveloped countries, and in order to enable the host countries to make a good start in doing the things that the technicians are teaching and demonstrating.

This answer to the legal question has, of course, left largely unresolved the policy issue as to how large Point 4 grants should be. Three points of view have been urged:

(a) The Point 4 Program should consist principally of making available the services of technicians, and grants of supplies and equipment should be kept to the absolute minimum necessary for demonstration purposes. For the 35 countries in which TCA is now operating, annual appropriations of approximately $50,000,000 should be sufficient.

(b) The Point 4 Program should make available not only the services of technicians but also such grants of machinery, equipment and supplies as may be needed to enable the underdeveloped countries to make very substantial progress in developing their economies within the next two decades. Some private groups have spoken of "a TVA on the Nile" and "a TVA on the Ganges", of steel plants and of considerable industrialization, to be financed in large part through the Point 4 Program, supplemented, of course, by the expenditures of the host governments themselves and by private investment. People outside the Department have sometimes urged appropriations as high as one billion dollars a year for ten years. Some people inside the Department have urged appropriations of $500,000,000 to $700,000,000 per year.

(c) The position originally urged by Dr. Henry G. Bennett, the first Administrator of TCA, by Mr. Andrews, the present Administrator, and that has become the official view of TCA and the Department, is that the grants should be sufficient to make possible a dynamic program that can show significant results year by year but should not attempt to provide any important part of the investment capital that will be needed. The Department asked and received for the fiscal year 1952 $127,000,000 on a global basis and for the fiscal year 1953 $140,000,000. For the fiscal year 1954 it has requested an appropriation of $142,000,000, and it is estimated that $150,000,000 per year will be sufficient for the 35 countries in which the program is now operating for a number of years to come.

This issue became acute within the Department a few weeks ago when we had to decide what appropriation the Department should request for 1954. TCA recommended a budget request of $142,000,000. The Offices of the Assistant Secretary for Economic Affairs, the Assistant Secretary for Near Eastern, South Asian and African Affairs and the Assistant Secretary for Far Eastern Affairs urged that substantial economic assistance would be required for India, Pakistan, Iran, Israel and some of the Arab countries and therefore felt that the Point 4 Program should request an appropriation in excess of $600,000,000. The decision went in favor of TCA's recommendation (largely because of the legislative history developed during 1951—see Legal Counsel's Opinion No. 2 mentioned

above), but with an important compromise: The Department also decided to ask for new legislation that would authorize additional grants as special economic aid to certain countries, these special grants to be also administered by TCA but to be regarded as short term in character and not a part of the Point 4 Program. These issues are certain to be reopened.

2. Should Special Economic Aid, If Given, Be In The Form Of Grants Or Loans.

Although the Department has already recommended that the special economic aid referred to above should be given as grants (and the budget submitted to the Congress by President Truman provides for such grants in the sum of $409,000,000 for the fiscal year 1954), TCA is now formulating recommendations to the Secretary that if such special aid is needed it should not be given as grants but, wholly or partly, in the form of "specially favorable long term development loans". The quoted phrase refers to loans that would have amortization periods up to 35 years, very low interest rates (as low as zero per cent for non-income producing projects such as schools and health centers), deferred payment dates for the initial installment of principal and interest and, possibly, provision for repayment in non-dollar currencies or in commodities.

TCA's recommendation will argue that large scale grants to underdeveloped countries are not effective means for realizing the ends sought, aside from being increasingly unpopular with Congress and the public. The economists for the Export-Import Bank (which probably would be the lending agency for such specially favorable loans) are likely to object to making such loans on the ground that they are "fuzzy" loans which blur the distinction between loans and grants and weaken the ability of the recipient country to qualify for "hard" loans.

When this issue arises, it is likely to raise a whole series of questions that will require answers: Does the United States really need to give "special economic aid" to any of these countries, in addition to (a) the Point 4 Program, (b) the loans that now can be secured from the Export-Import Bank and the International Bank for Reconstruction and Development, and (c) the efforts of the United States to stimulate and increase private investment in underdeveloped countries? If a case can be made for such special aid to India, Pakistan, Iran, Israel and three or four of the Arab countries, what amounts of aid are needed, and should that aid be given as grants or as such specially favorable long term loans?

3. Need For Authority To Give Emergency Assistance For Crop Failures Or Other Crises.

Every now and then the Department receives urgent cables from its Embassy in one of the underdeveloped countries reporting that a drought or some other calamity has caused a wheat shortage that threatens famine and serious internal unrest. The cable usually urges that the Department protect its foreign policy objectives in the country and in the area by making an immediate grant of wheat or other assistance to prevent riots or even internal collapse. Such a situation developed in Jordan in 1951 and was met by a special grant of wheat to the value of $1,250,000. Authority for this was found in the provisions of the Economic Cooperation Act of 1948,[3] as supplemented by the Mutual Security Act of 1951.[4] During 1952 similar crises developed in Pakistan, Afghanistan and Egypt. Wheat was supplied to Pakistan and Afghanistan under a somewhat obscure provision that was found in the China Area Aid Act, and approximately $10,000,000 worth of wheat will soon be made available to Egypt under Section 503 of the Mutual Security Act of 1952. There are now developing rumblings that indicate that similar assistance will be requested for Libya and possibly a second time for Pakistan.

The difficulty in all of these cases is that these requests necessitate some stretching of statutory provisions which were intended for other purposes and something of a diversion of funds from the purposes for which they were directly appropriated to meet these urgent needs.

TCA is particularly concerned over this series of crises because it is the only operating agency in the Department that administers economic aid programs. It is, therefore, constantly under pressure to find authority and funds to meet these crises.

The straightforward solution to this problem would seem to be for the Department to submit proposed legislation to the Congress under which the President would be authorized, when he found that such an emergency in a foreign country endangered the security interests of the United States, to allocate money to the Secretary of State or to any other suitable agency of the Government, from an emergency fund to be made available for that purpose, to give aid, in the form of either a loan or a grant, or both, for a long enough period to enable him to report the situation to Congress with recommendation for such further action as may be needed. TCA has urged the Department to recommend such legislation, but

[3] Title I of the Foreign Assistance Act of 1948 (Public Law 472), enacted Apr. 3, 1948; for text, see 62 Stat. 137.

[4] Public Law 165, enacted Oct. 10, 1951; for text, see 65 Stat. 373.

the difficulty is that it seems unlikely that the Congress would approve such a proposal. The question should be re-examined because the new Congress may be willing to give the new President what the previous Congress would definitely refuse to give to the former Administration.

4. Transfer of TCA Outside State Department.

Some of the President's advisers are known to favor the establishment of a new agency outside the State Department to administer all foreign economic assistance programs. This proposal has a long history; in its latest version it is said to propose that the Mutual Security Agency, the Export-Import Bank, TCA and the Office of the Assistant Secretary of State for Economic Affairs be consolidated into an independent agency reporting to the President.

The principal argument in favor of this proposal has been that it would facilitate coordination among the foreign economic assistance programs, and should be able to promote administrative efficiency and economy.

The Department and TCA have objected to this proposal on the following grounds:

(a) The administration of foreign economic assistance is a very important part of the administration of the foreign policy of the United States. To remove the Point 4 Program from the State Department would be to remove from the Department one of its most effective arms for realizing foreign policy objectives in the underdeveloped countries. Coordination in Washington between policy and operations would become more difficult, and, in the host countries themselves, the American head of the economic assistance operation would become a competitor of the American Ambassador. The working relations between TCA Country Directors and the American Ambassadors are today much more friendly and effective than those between the Country Directors of the Mutual Security Agency (which is outside the Department) and the American Ambassadors in those countries where MSA operates.

(b) MSA is authorized to conduct what are called "defense support operations"—that is, MSA gives such economic assistance as will support and strengthen the military defense effort of the recipient country. To consolidate TCA and MSA in a single agency would tend to create a strong impression, both in the United States and abroad, that the Point 4 Program is a part of the "cold war" and is closely associated with military and defense support operations. Such an impression would greatly weaken the effectiveness of Point 4 and would jeopardize the acceptability of the program in a number of important countries, among them India, Indonesia, Burma, Iran, several of the Arab countries and others.

The Export-Import Bank would undoubtedly also oppose the proposal on the ground that it is unwise to combine lending programs

with grant programs in a single agency. There is probably much merit to this objection.

Another form of this proposal has advocated that MSA be transferred to the State Department so that it and TCA could be consolidated within the Department. While this variation of the proposal would meet the first of the two objections stated above, it would not meet the second. TCA would still strongly urge that it be kept organizationally separate from agencies administering defense support operations.

The basic idea of the Point 4 Program has developed tremendous appeal for the governments and peoples of the underdeveloped countries—more than half the population of the world. The idea was launched only four years ago, and became law only two and a half years ago but already it is one of the most potent ideas in our foreign policy. We should be very careful not to dilute the appeal of this program by the way we organize and administer it.[5]

[5] In accordance with President Eisenhower's Reorganization Plan No. 7, submitted to Congress on June 1, 1953, the functions of the Technical Cooperation Administration, the Institute of Inter-American Affairs, and the Mutual Security Agency were transferred to a new Foreign Operations Administration, effective Aug. 1, 1953.

398.14/2-653

Memorandum by the Director of the Office of Financial and Development Policy (Corbett) to the Assistant Secretary of State for Economic Affairs (Linder)

CONFIDENTIAL [WASHINGTON,] February 6, 1953.

As of possible use to you in your luncheon with Mr. Black on Monday, I am setting forth below a few points of mutual interest:

1. *IBRD-Eximbank Relations.* Mr. Black has recently written a memorandum to Mr. Humphrey concerning this matter.[1] It may be subsequently distributed to the NAC and brought up for discussion there. I am told that there is very little new in this memorandum but it does express Mr. Black's view that the respective areas of operation of the two Banks have not yet been adequately delineated. While I think we have made considerable progress in the last couple of years on this subject, certainly much remains to be done. How much of this remaining work can be done by drawing up agreements, I am not quite sure. More important, it seems to me, would be good working relations between the staffs of the two Banks and frequent consultations between Mr. Black and the Chairman of the Eximbank. Efforts have been made to develop this

[1] Not further identified.

type of relationship but they have generally foundered on bureaucratic shoals.

The Department has had unwillingly to make certain decisions concerning the distribution of projects in Brazil, for example, between the two Banks. These decisions, we hope, were based upon the policy guidance we got from the NAC. It is not a role which we have enjoyed and one which we have felt is not essential if the two Banks would establish closer relations.

2. *Current IBRD–Eximbank Problems.*

a. Turkey
b. Brazil
c. Japan
d. Mexico (no longer current)

I believe you are fairly familiar with the essentials of these cases. I will not here elaborate upon them.[2]

3. *Relations of the IBRD with Department.* While it is quite clear that the official and formal channel between the U.S. Government and the IBRD is through the U.S. Executive Director, we have not had for a good many years a Director who has been able to devote sufficient time to this matter to constitute a thoroughly effective line of communication. Additionally, the importance of the Bank's operations to our foreign policy is such that both the Bank and ourselves have found it necessary and desirable to communicate directly. In the E area it has always been our practice to keep the U.S. Director informed of these contacts but unfortunately many instances have occurred where parts of the Department have not fully appreciated the necessity of keeping the U.S. Director and yourself adequately briefed. While we think this is in large measure a departmental problem, to some extent Mr. Black's willingness to have these contacts has prevented us from performing what I regard to be a useful function. There are instances which could be mentioned that would illustrate this point. I conclude from all of this that it would be highly desirable if Mr. Black could look to you as the primary point of contact in the Department on problems which he feels he needs some consultation with the Department. This does not mean, of course, that you yourself would have to be continuously concerned with these matters but it would certainly mean that you would be fully informed on difficulties and how they are being dealt with. This is all the more important by virtue of your representation of the Department on the Eximbank.

4. *Private Investment.* Mr. Black's views on various aspects of this matter would be of interest.

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[2] Documentation on the financial relationship between these nations and the two banks is in files 398.14 and 103 XMB and in NAC files, lot 60 D 137.

5. *Fuzzy Loans.* You may wish to inform Mr. Black of some developments in this field and our attitude towards them.

6. *Bank Operations.* The Bank since its conception in 1946 has made 1.5 billions of dollars in loans to 27 member countries. The Bank's operations have become increasingly successful under Mr. Black. Needless to say it is our feeling that further expansion of these activities is now even more important and a greater reliance is being placed upon the Bank's operation in our thinking and planning on foreign economic policy.

398.14/2-1053

Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Corbett)

CONFIDENTIAL [WASHINGTON,] February 10, 1953.

Subject: IBRD-Export-Import Bank-State Department Relations

Participants: Mr. Eugene Black—President, International Bank for Reconstruction and Development
E—Mr. Linder
OFD—Mr. Corbett

Mr. Linder thanked Mr. Black for his courtesy in coming to his office to discuss International Bank relations with the Department and the Export-Import Bank. Mr. Linder said he had no particular matters to take up but because of his position on the Board of the Export-Import Bank and the Department's interest in the operations of the IBRD, he thought the meeting would be a most useful one to him.

Mr. Black immediately launched a discussion of the Turkish approach to the Eximbank for a $90 million loan and the Brazilian failure to carry through on the railroad reorganization. Mr. Black felt that the U.S. Government had to make up its mind concerning the role of the IBRD if that institution was to be successful in its mission. He felt that so long as the opportunity and the invitation existed for countries to go around the IBRD to the Eximbank it would be impossible for the IBRD to secure the type of action and attitude conducive to their development, and he felt this was particularly the case with Brazil. He had no objections to a Brazilian back-log loan but he had strong objections to Eximbank loans to Brazil for railroad and other developmental type projects. He found particularly offensive the reception by the Eximbank of the Turkish approach for $90 million. He believed that the International Bank had been very considerate and constructive in its dealings with Turkey and there was no excuse for the Turks going to the

Eximbank. Loans of this magnitude to Turkey would imperil the investment that the International Bank already has in that country.

Mr. Linder addressed himself to Mr. Black's general proposition that the IBRD must do all developmental lending to its member countries. He thought this was a generally sound position but he wished to point out that the political interests of the U.S. were such that complete rigidity or inflexibility on this point might not be workable. He illustrated this point by reference to Iran where a loan operation might be necessary for reasons of national interest. Mr. Linder admitted that the Turkish matter was extremely unfortunate but that the Turks had received no encouragement from the Department or the Eximbank to make this approach and the Department had no objection to the Turks being told that their application would not be considered. (I understand the Turks have assured Mr. Black that their informal application to the Eximbank will be withdrawn.)

Mr. Linder asked Mr. Black how he felt about Export-Import Bank development lending without Government guarantees and exporter credits. Mr. Black was somewhat evasive in his response but later remarks indicated that he hoped the I.F.C. would circumscribe this Eximbank activity. Mr. Linder pointed out that too great a restriction in Eximbank's scope of operations would tend to give encouragement to those seeking to establish as a permanent feature of our foreign economic policy the "fuzzy" loan concept. To the extent that all appropriate public lending activities can be covered by the two Banks, there will be no justifiable case for other types of loans.

Mr. Black reverted to his main point that the U.S. Government had to make up its mind concerning the International Bank operations because each time the issue was confused by the Eximbank participation in developmental lending, he would certainly recommend that the International Bank wash its hands of that country. Mr. Black did concede that the present NAC policy regarding the operations of the two Banks was not in and of itself defective but it had not been carried out. He agreed that had the Eximbank fully accepted all the implications of the NAC decision that many of the difficulties to which he referred might not have arisen. He said that he had been asked to recommend new people to put on the Eximbank Board but would not do so until he was assured that the U.S. Government would support a clear-cut policy reserving developmental lending to the IBRD. Mr. Black admitted that there were many areas of the world where the Eximbank–IBRD difficulties had not arisen and that the only major problem outstanding was Brazil.

E files, lot 60 D 133, "Investment Guarantees, 1953–1954"

Memorandum by the Deputy Director of Mutual Security (Rand) to the Director of Mutual Security (Stassen)

[WASHINGTON,] April 18, 1953.

Subject: Investment Guaranty Program.

1. The Program to Date.

Through the guaranty program, the U.S. Government offers, for a fee, insurance protection to new American investments abroad against the risks of currency inconvertibility and loss through confiscation or expropriation. Protection against currency inconvertibility was authorized by the ECA Act of 1948; protection against confiscation and expropriation was authorized by the ECA Act of 1950[1] and made available in mid-1951.

All the countries for which aid is authorized by the Mutual Security Act of 1951 are eligible to participate in the program. The assurances required to make the program operative have been obtained from 17 countries with respect to convertibility guaranties and from 15 of these 17 with respect to expropriation guaranties. Among the 17 are 4 of the non-European countries made eligible by the 1951 Act—China, Israel, Haiti and the Philippines. At March 31, 1953, 44 convertibility guaranties totaling $38,044,017 and 3 expropriation guaranties totaling $1,574,231, had been issued covering investments in 6 countries: France, Germany, Italy, The Netherlands, Turkey and the United Kingdom. The contracts issued range in amount from less than $20,000 to more than $14,000,000, and protect investments in industries so diverse as oil refining, sewing machine manufacture, seed cultivation, pharmaceuticals manufacture, and carbon black manufacture.

Thus far, some $700,000 of fees have been collected; no claims have been paid. Fifty-one applications for convertibility guaranties, totaling $41,000,000, and 22 applications for expropriation guaranties, totaling $17,000,000, or a total of 73 applications for $58,000,000. were in process at March 31, 1953.

2. Continuation of the Program.

On the basis of experience to date, there is little indication that presently authorized guaranties will make a major contribution to efforts to encourage U.S. private investment abroad. Nonetheless,

[1] Title I of the Foreign Economic Assistance Act of 1950.

it is recommended that the program be continued under vigorous administration in an effort to develop its potentialities because:

a. The full effects of the two types of guaranty presently offered (inconvertibility and expropriation) have not yet been fully felt. It takes about two years for the effect of each successive development of the guaranty authority to be reflected in completed new investments. The program has not yet been extended to the underdeveloped areas where protection against political risks may be most needed. The potentialities of the protection offered by the program are not fully understood by the business and financial communities either here or abroad, largely because of inadequate efforts to promote this understanding.

b. It is possible to increase the effectiveness of the program without undue administrative burden or undue assumption of risk by the Government. Proposals to this end are outlined below.

c. It would be unwise from the standpoint of Congressional and public relations to abandon the program at this time. The disposition of the guaranty program, which will necessarily arise in Congressional hearings on the Mutual Security Program, will probably be the first concrete decision with respect to the Government's role in encouraging private investment to follow upon the President's State of the Union message which emphasized the need for an affirmative private investment policy. The guaranty program has been developed largely on the initiative of the House Foreign Affairs Committee which has already expressed its current interest in MSA plans for the program.

3. Proposed Changes.

In order to permit further development of the potentialities of the guaranty program and to prepare the way for more effective promotion of understanding of its nature and possible uses, the following legislative changes are recommended:

(1) Cover risk of loss of investment by damage from war, revolution and civil disorder (war risk is already covered in part by expropriation guaranty).

(2) Broaden the availability of guaranties by (a) making it legally possible to extend the program to the relatively few remaining countries of the free world not presently participating in the Mutual Security Program (provided, of course, that the U.S. and foreign government agree to the initiation of the program), (b) eliminating the requirement that investments be found to further the purposes of the Mutual Security Act (which results in a more restrictive standard in Europe than in the Point IV countries) and (c) providing the necessary legal basis for greater reliance by MSA on foreign government findings that the investment is economically beneficial.

(3) Extend authority to write guaranties from present limit of June 30, 1954 to June 30, 1957, and term of individual guaranties from present expiration date of April 2, 1962 to twenty-five years from date of issue.

Two other possible changes which have been considered are (a) authority to provide special protection for materials development investments and (b) the underwriting (with indemnification commitments) of foreign government guaranties of exchange rate for medium and long term fixed dollar obligations. These possibilities are under further study.

WILLIAM M. RAND

NAC files, lot 60 D 137, "Documents"

Draft Position Paper Prepared in the Department of State [1]

RESTRICTED [WASHINGTON,] June 17, 1953.
Document No. 1477

DRAFT POSITION PAPER CONCERNING THE INTERNATIONAL FINANCE CORPORATION (IFC)

Problem

What should be the U.S. Delegation's position on the further report of the International Bank [2] on the status of the International Finance Corporation proposal?

Recommendations

1. The U.S. Delegation should state that the U.S. Government has not formulated a position on the feasibility or desirability of the IFC. It should make clear in the debate that it cannot support any resolution favoring the establishment of IFC or recommending that the Assembly give it sympathetic consideration. The U.S. Delegation should not vote in favor of a resolution of this kind.

2. The U.S. Delegation should support a resolution calling upon the Bank to continue its study of the IFC proposal. As subjects to be considered in such further study, the Delegation may mention the questions raised in paragraphs 3(a) and 3(b) of the discussion section below. At its discretion the Delegation may also include as an appropriate related matter for study by the Bank the question of whether it would be useful to establish an international clearing house of investment information for dissemination, among private investors.

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[1] This draft was revised by the NAC Staff Committee at its meeting of June 17, 1953. It was introduced in the NAC meeting the following day and approved without discussion. (Minutes of the 201st meeting of the National Advisory Council, June 18, 1953, NAC files, lot 60 D 137, "Minutes")

[2] International Bank for Reconstruction and Development, *Report of the Status of the Proposal for an International Finance Corporation* (Washington, May 1953). The report stated, *inter alia*, that most of the less-developed nations supported the creation of an IFC, whereas the developed countries tended to reserve judgment.

Discussion

1. At its 14th Session the ECOSOC had before it a report of the International Bank on the proposal for an International Finance Corporation. The purpose of the Corporation was described in the report as "to promote economic development through the stimulation of private investment in its member countries", which it would do "through equity investments and loans without government guarantee". The report was discussed at some length, although the Council took no position on the establishment of such a Corporation. However, it did adopt a resolution* which noted the Bank's intention of continuing its examination of the proposal, and requested the Bank to inform the Council during 1953 of the results of its further examination of the proposal and the action it has taken concerning it. The General Assembly subsequently adopted a resolution which took note of the foregoing resolution of ECOSOC, and requested the Council "to report to the General Assembly at its eighth session on the progress made in regard to the proposal for the establishment of an International Finance Corporation".† The present report on the status of the International Finance Corporation proposal has been submitted pursuant to these resolutions.

2. The purpose of the present report is, in the Bank's words, "to inform the Council of the results of the Bank's consultations concerning the proposed institution since transmittal of its earlier report". These consultations have been largely of an informal nature. Although the Council's resolution left the nature of the requested consultations to the discretion of the Bank, certain delegations may express regret that the Bank did not take more initiative in seeking authoritative expressions of opinion from its member governments. Clearly, it is not incumbent upon the U.S. Delegation to defend the Bank from this sort of criticism, although the Bank's reluctance to undertake formal consultations presumably arose from its knowledge that the U.S. Government had not, and probably could not, reach a firm decision on the IFC proposal prior to this session of the ECOSOC. Although, in terms of the ECOSOC resolution, the criticism is probably justified, the Delegation should not associate itself with criticism of this kind.

3. Certain delegations may also be critical of the Bank for not reporting upon its further examination of the IFC proposal. The Bank excuses itself with the statement that "countries on whom

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*No. 417 of June 23, 1952. Text appended to IBRD Report. [Footnote in the source text.]

†No. 662 of December 21, 1952. Text appended to IBRD Report. [Footnote in the source text.]

the Corporation would necessarily have to depend for the greater part of its funds have not as yet indicated that they are ready to commit themselves to subscribe to its capital". On the other hand, the positions which governments eventually take will be influenced by the way in which the proposal is presented, and the nature of the examination to which it is subjected. Clearly all the procedural and organizational problems need not and cannot be determined in advance, but the basic purposes and functions require thorough examination. Some of these basic questions are:

(a) To what extent will the Corporation be oriented toward attracting more local capital from within underdeveloped countries for productive investment purposes? Again, this is a basic element in the consideration of the IFC proposal. In practically every country there are privately held resources which should be channelled into local enterprises insofar as possible. How would the IFC attempt to bring this about?

(b) Can the Corporation fulfill a useful function in improving the investment climate within underdeveloped countries generally as well as with respect to specific enterprises in which it participates. Will it offer, for example, advice concerning the measures required to attract private capital, in the necessary legislative and administrative changes, in establishing the local financial and other institutions important for this purpose? There is need for this kind of assistance, which is an obvious complement to the other functions proposed for the IFC, and the use of an international organization has certain apparent advantages.

One of the earlier resolutions of ECOSOC concerning measures to stimulate the flow of private capital (No. 22 D(IC), 14 August, 1949) requested the Secretary-General to study "the possibilities of establishing an international clearinghouse of information by which potential . . . private investors can be brought together with . . .[3] private persons requiring funds in underdeveloped countries". No such study was ever made, and the subject has not been discussed further in the Council. Nonetheless, consideration might be given to the question in connection with the present ECOSOC discussion of the IFC. Such a clearinghouse might provide a central point for information of this kind and for contact between potential investors and foreign interests seeking investment which might make a helpful contribution to the encouragement of private foreign investment.

Without taking the initiative in any debate on the Bank's failure to fulfill the terms of the last years ECOSOC resolution, the U.S. Delegation could well indicate that questions of this kind are not without merit, and should be considered in further study of the IFC proposal. The U.S. Delegation should use its good offices to avoid

[3] Ellipses in the source text.

and abstain from voting on a motion which expresses regret at the nature of the Bank's examination of the proposal as evidenced by the present report. It would be preferable, however, for comments of this nature to be expressed in terms of the Bank's future study of the proposal rather than its past performance.

4. The ECOSOC resolution also suggested that governments consult with national organizations and business groups concerning the IFC. Although certain organizations, such as the National Foreign Trade Council, and individual representatives of American companies have expressed views concerning the IFC the U.S. Government has not undertaken any systematic consultations with the private community. The U.S. Delegation should acknowledge that it has not yet responded adequately to the suggestion concerning such consultations. Since the views which have been expressed in business circles have been largely negative, it has been felt that no useful purpose would be served by further consultations until the U.S. Government had reached a tentative position on the merits of the proposal.

5. The Delegation should frankly admit that the U.S. Government has not yet formulated its position on the IFC proposal. It should point out that the new Administration has determined to study all aspects of American foreign economic policy before making certain basic policy decisions. This includes the appropriate U.S. Government participation in the matter of stimulating the international flow of private capital in which the IFC has to be weighed against other proposed measures. Therefore, it has seemed premature to attempt to reach a position on the IFC until the entire subject has been studied. There may be a disposition on the part of some delegations to enter into a full discussion of the substance and merits of the IFC proposal. Obviously the U.S. Delegation cannot stop such a discussion, but it should not participate nor should it associate itself with any resolution which expresses a position on the feasibility and desirability of an IFC.

6. It is difficult to predict what action the ECOSOC is apt to take as the next step with respect to the IFC proposal. In view of the inadequacy of the Bank's report there may be a move to take its further consideration out of the hands of the Bank and to refer it instead to the UN Secretariat or, more likely, to a group of experts designated by the Secretary-General. The U.S. Delegation should resist such a move. In view of its experience with the problem of development the Bank is particularly equipped to carry forward the study. The fact that the present report is by no means a final one, which the Bank would be the first to admit, should not be the basis for any action which implies that the Bank is incompetent to continue the study. Should a resolution be introduced which calls

upon the Bank to continue its study, with the expectation of submitting a report in 1954, the U.S. Delegation should support it. Such a report should be available in time for it to be considered by governments in consultation with their private interests, prior to being called upon to express a position in the ECOSOC (preferably the 18th session) or in any other international body.

7. It is unlikely that a proposal will be made to remove the item permanently from the ECOSOC agenda and leave it entirely to the Bank for further study and action. However, the U.S. Delegation should support such a proposal if any substantial sentiment should develop for it.

340/6-1953

Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) and the Assistant Secretary of State for United Nations Affairs (Hickerson) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] June 19, 1953.

Subject: World Fund for Economic Development

Discussion:

Notwithstanding strong U.S. opposition, the UN General Assembly in February 1952 called for a plan for establishing a Special UN Fund for Economic Development (SUNFED) to provide grant aid. This plan has now been prepared by a group of experts[2] and it will be a major agenda item at ECOSOC in July and at the General Assembly in the fall. The President's statement in his April 16 address in support of a "fund for world aid and reconstruction"[3] has given encouragement to the supporters of SUNFED, and the President's statement will inevitably enter importantly into the discussions. The refusal of the U.S. and of other "developed" countries to

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[1] Drafted by E[illegible]on A. Ross, Chief of the Investment and Economic Development Staff, and Edmund H. Kellogg, Officer in Charge of United Nations Economic Affairs.

[2] Wayne Chatfield Taylor was the American member appointed by the U.N. Secretary-General to serve on the nine-man U.N. International Development Fund Committee, which was empowered to draw up a blueprint for such a fund. Memoranda of conversation between Taylor and Department of State officials on the progress of the Committee's work are in Department of State files 340, 398.14, and 800.10. The Committee's report, *Report on a Special United Nations Fund for Economic Development* was completed in March 1953 and placed before the Economic and Social Council at its Sixteenth Session, held in Geneva June 30–Aug. 5, 1953.

[3] The President's address, delivered before the American Society of Newspaper Editors, was broadcast to the nation over radio and television on Apr. 16, 1953. For text, see Department of State *Bulletin*, Apr. 27, 1953, pp. 599–603.

support SUNFED now may cause resentment among the majority of ECOSOC which strongly favors it.

The ECOSOC discussion concerning SUNFED offers an opportunity for us to carry forward the momentum of the President's address and re-emphasize the President's proposal for a fund for world aid and reconstruction. Attention would thereby be focused again upon the fact that it is the USSR which is holding up international efforts to promote economic development. A large body of world opinion would be further encouraged to support multilateral disarmament. We should therefore take the initiative to propose a resolution based on the President's pledge. Clearly such a proposal would have stronger effect in ECOSOC if the fund were to be related to the UN. We should make clear that the President did not propose the establishment *at this time* of a world fund. The precedent conditions are specific acts by the USSR to strengthen world trust and make possible effective multilateral disarmament undertakings.

Proposed Position of U.S. Representative:

In the light of this situation it is proposed that the U.S. Representative: (1) point out that inasmuch as conditions for establishing an international development fund have not yet materialized, it is neither useful nor practical to consider the SUNFED proposal *at this time*; (2) state affirmatively that the fund envisaged by the President is an international fund and would be designed to strengthen the UN in its mission of guarding the peace and security of all peoples; (3) reiterate the President's pledge and propose in ECOSOC that the UN General Assembly be asked to adopt a declaration urging all governments to join in the pledge, and proposing the convening of a conference of governments, when genuine progress has been made toward worldwide disarmament, to consider appropriate measures for using a portion of the savings from disarmament for development and reconstruction.

Recommendation:

1. That you approve the proposed U.S. position set forth in the preceding paragraph;

2. That after your approval of the position indicated, UNA and E will obtain the views of the other interested agencies; and

3. That after this interdepartmental consultation a memorandum summarizing the proposed position on this issue will be prepared for transmittal by you to the President for his approval.[4]

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[4] The following note by O'Connor appears on the source text: "Sec saw and dictated memo." Dulles, in his memorandum of June 27, 1953, expressed skepticism that the U.N. delegates would create SUNFED, noting that such an action would give

Continued

340/7-2153 : Telegram

The Consul at Geneva (Oakley) to the Department of State

CONFIDENTIAL NIACT GENEVA, July 21, 1953—3 p. m.

Ecsoc 23. For the President from Baker, Heffelfinger, Salomon.[1] News impending Congressional action UN technical assistance appropriations[2] has spread like wildfire through Economic and Social Council and has caused general consternation.

First reaction as follows:

1. Rejection 1953 supplemental will completely disorganize going progams and require immediate liquidation large parts of them.
2. Reduction of US contribution 1954 to $4,250,000 will result in cuts contributions other governments and thus reduce spending level 1954 to little over one-third present operations.
3. The US is being accused of attempting to seriously undermine program it itself has sponsored.

We are gravely concerned over situation which threatens wipe out US leadership in ECOSOC and to jeopardize US position in UN, since technical assistance program is generally considered most constructive and effective program of the UN. News received from Washington has already immeasurably strengthened those who in the discussion of economic development fund for under-developed areas have opposed US position on grounds that your pledge of aid from disarmament savings could not be taken seriously and that a new isolationism was the predominant note of US foreign policy.

Whole effect of your approach to foreign aid in grave danger. This all the more serious since it gives representatives of USSR and Poland every opportunity to exploit propagandawise their offer this session of 4 million rubles and 300,000 zlotys to technical assistance fund.

We appeal earnestly that everything humanly possible be done to save the technical assistance program by way of positive action

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rise to false hopes. (340/6-1953) Telegram Socec 8 to the U.S. Delegation, July 6, 1953, signed by Dulles, transmitted as the official U.S. position on SUNFED the three-point proposal outlined in this memorandum. (340/7-153)

[1] John C. Baker was the Chairman of the U.S. Delegation to the Sixteenth Session of the Economic and Social Council. Elizabeth Heffelfinger of Wazata, Minnesota, and Irving Salomon of Escondido, California, were Advisers. For a complete list of the U.S. Delegation to this session, see Department of State *Bulletin*, July 6, 1953, p. 57. The message was transmitted to President Eisenhower under cover of a memorandum from the Secretary of State, dated July 22, 1953. (340/7-2153)

[2] The Secretary's memorandum of July 22 indicated that the House Appropriations Committee had recommended that the $4,595,812 authorized to fulfill the 1953 U.S. pledge of $12,767,145 to the U.N. technical assistance account be disallowed, and that it had voted to reduce this country's 1954 contribution from $12,750,000 to $4,250,000.

on the part of Congress taken in full knowledge of the seriousness of the situation. Authors this cable personally greatly impressed with the fact that our contributions to the technical assistance program probably represent the best investment the US has made in recent years to further US interests and prestige.

Our concern so great that we consider it desirable Baker present case personally Washington, if essential.[3]

OAKLEY

[3] Telegram Socec 25 for Baker, Heffelfinger, and Salomon, July 23, 1953, stated that President Eisenhower requested that they be advised that he was making a vigorous effort to bring about a restoration of the cuts recommended by the House Committee. (340/7-2153)

340/8-2553

Special Report of the United States Delegation to the Sixteenth Session of the Economic and Social Council, Geneva, June 30–August 5, 1953 [1]

CONFIDENTIAL GENEVA, August 5, 1953.

[Here follow a letter of transmittal containing a brief table of contents and Section I, "Comments on Other Delegations at the Conference."]

II. OBJECTIVES AND RESULTS

The United States Delegation did not come to this session of the Council with any "bold new program" to establish. The objective in both the social and economic fields was rather in the nature of a holding action: to avoid any large-scale financial commitments, direct or implied, to adjust and improve programs already underway.

This has generally been accomplished with only minor sacrifices of the United States position. With the exception of taking the forced labor and freedom of information items off the agenda, the actions of the Council have supported the United States position or have been, at least, satisfactory compromises. The number of actions taken by unanimous vote has been quite gratifying.

It might also be stated that one of the major accomplishments was the improvement of our relations with practically all of the nations represented. Every member of the Delegation, including the

[1] Prepared by Irving Salomon, Adviser to the U.S. Delegation, at the request of John C. Baker. The full report covered four major topics: (I) the attitudes and viewpoints of other delegations, with a special section on the Russian attitude, (II) U.S. objectives and results, (III) the size and composition of the U.S. Delegation, and (IV) the agenda and organization of work, with suggestions for future meetings.

permanent staff in Geneva, worked for this objective, apparently with some success. As well as can be judged, the United States Delegation as a whole conducted itself with the efficiency and dignity so as to earn the respect of other delegations. The credit for this, in large measure is due the chairman of the Delegation, Mr. John C. Baker. Although he himself would object, it should be mentioned that his success in working with other delegations and his inspiring leadership resulted in a remarkably smooth working and cooperative Delegation throughout.

At the 16th Session, we played for time on the ground that a comprehensive review of U.S. foreign economic policy was under way and would take until at least next spring to complete.[2] But will we be ready to move forward next spring, within the UN framework, with an imaginative, constructive line that will maintain our position of leadership and strengthen the confidence and security of our friends?

We profess great faith in the United Nations but we have reached the point where we must be better prepared to demonstrate that faith in concrete economic and social programs, which are not completely dwarfed by our bilateral programs, or we must temper our professions of faith. We need both a better understanding of our long-term objectives in the Economic and Social Council and of our overall objectives at each session.

The results on the more important items as summarized by the member of the Delegation responsible are as follows:

[Here follows discussion of several reports, of a review of 1954 programs, and of the issue of full employment.]

Item 3(a): Special United Nations Fund for Economic Development

This item was generally regarded by underdeveloped countries as the most important on our agenda. The detailed plan for a development fund (SUNFED) represented the culmination of several years' effort by them to establish such a fund within the United Nations.

Despite our admittedly excellent record of financial assistance to underdeveloped countries, the United States, because of its refusal to cooperate in the establishment of a development fund within the United Nations, and because its support of such fund was essential to its creation, became the focus of resentment by the underdeveloped countries, which regarded the United States as the main obstacle to United Nations action in this field. In this connection, it should be noted that the representatives of many underdeveloped

[2] The Commission on Foreign Economic Policy, chaired by Clarence B. Randall, was established by President Eisenhower in early 1953 to conduct a thorough review of U.S. foreign economic policy. The Commission submitted its *Report to the President and the Congress* in January 1954. See the editorial note, p. 49.

countries were prepared even to accept some reduction in the total amount of assistance available to them, provided that a part of this assistance moved through a United Nations fund.

From our point of view, the President's speech of April 16[3] represented an important change in the position of the United States in this matter, particularly in the light of the interpretation which the Delegation was authorized to make to the Council, i.e., that the President meant an international fund designed to strengthen the United Nations. We recognized that the President's promise was one that probably could not be acted upon in the near future, and that the underdeveloped countries were impatient to move ahead with the special development fund. Moreover, an integral part of our position continued to be opposition to any further action now, such as refinement of the SUNFED blueprint, looking to creation of a special fund. Nevertheless, it was hoped that the promise of a substantial development fund after genuine disarmament would be greeted as an important positive change on our part in the Council.

As it turned out, our new position was received without enthusiasm by both the developed and the underdeveloped countries. The former were unhappy at the prospect of losing the shelter of United States opposition to the demands of the underdeveloped countries, and the latter felt that the preconditions attached were such as almost to make certain that we would never have to make good on our offer in respect to the fund. This, together with our attempt to write into the SUNFED resolution a statement that it was premature to take any further steps at this time looking to a development fund, made our basic position unacceptable to the underdeveloped countries.

To avoid a Council split on this issue, the resolution as agreed simply transmits the SUNFED report to the Assembly, which is left to consider what other preparatory steps might usefully be taken. Our proposed Assembly declaration looking to an international fund after genuine disarmament is also included.

While our pledge regarding an international development fund and our call to others to join in such pledge did not bring spontaneous wide support in the Council, the importance of our pledge eventually was publicly acknowledged by many of the underdeveloped countries. Also, while we were unable to obtain majority support for our view that further action on SUNFED now was premature, we were able to avoid having the Council make positive recommendations for such action to the Assembly, and the matter is left to be dealt with there. We also made clear in the record that our view

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[3] See footnote 3, p. 273.

continued to be that no further preparatory action would be useful at this time.[4]

Item 8: Technical Assistance

The position of the United States at the Technical Assistance Committee was a difficult one because of the uncertainty of the United States financial support for the program. It was therefore felt that our delegation should not assume its usual leadership in the discussions. The results of the session were entirely in line with our own aim: the concept of and procedures for country planning were clarified, the role of the Resident Representatives was strongly supported, the allocation of funds for 1954 is within the scope of our instructions, and the financial procedures and future methods of allocation of funds are subject to study by a working party.

[Here follows discussion of Item 21, "Assistance to Libya," and Item 33, "Question of Access to Headquarters."]

[4] For a brief summary of the treatment of the SUNFED issue at the Eighth Regular Session of the U.N. General Assembly, which convened on Sept. 15, 1953, see circular airgram CA-1601, Sept. 3, 1954, p. 290.

398.051 IFC/2-454

Memorandum by the Director of the Office of Financial and Development Policy (Corbett) to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

OFFICIAL USE ONLY [WASHINGTON,] February 4, 1954.

Subject: The International Finance Corporation

1. The proposal to establish an International Finance Corporation has been before the United Nations and the International Bank, in one form or another, for about three years. You will recall that, as presently proposed, the Corporation would be an affiliate of the International Bank authorized to assist private enterprise by loans without government guarantees and by equity participation along with private capital. Mr. Black has indicated that a subscription of $50 to 100 million would be sufficient at the outset.

2. During the period that this proposal has been discussed in the UN, the United States has formulated no governmental position on the feasibility or desirability of an IFC. Our delegations to UN meetings have, in general, confined themselves merely to supporting further analysis of the proposal by the International Bank. The Bank staff now feels that sufficient preliminary studies have been

[1] Drafted by William J. Stibravy, Special Assistant in the Office of Financial Development Policy.

made, and that the possibility of further useful work depends on the attitude of the countries which would be the major contributors to the Corporation, and particularly the United States.

3. Practically all of the underdeveloped countries have indicated their support of the IFC. Of the more developed countries, Canada, Belgium and the Netherlands are prepared to contribute. The Scandinavian countries and Australia have indicated that their attitude will be determined largely by the position of the United States. Neither the French nor the British have as yet taken a position, apparently waiting upon the United States.

4. The General Assembly last December adopted a resolution which "urges governments which have not done so to give early consideration to the merits of establishing an International Finance Corporation, and to make known to the International Bank their views on the possibility of supporting such a corporation, in time for the Bank to take them into consideration when preparing its report for the 18th Session of the Economic and Social Council". The 18th Session of ECOSOC is scheduled to begin on June 30.[2] As indicated above, by that time over three years will have elapsed since the proposal was first put forward.

It would seem that we can hardly expect continued indulgence beyond the 18th Session of the ECOSOC on the part of other members of the United Nations with a refusal by the United States to say yes or no on this matter. At the very least, other countries will expect a pretty clear indication of the direction our thinking is taking. To discharge our obligations under existing UN resolutions on this matter, we should undertake fairly soon a full dress study of the proposal on its merits—before the International Bank presents its next report to ECOSOC. This would perhaps involve collaboration with the Bank as it carries forward such further studies of the proposal as it intends to make, as well as fairly extensive soundings of Congressional and business opinion concerning the proposal. Governments were requested to make such soundings of business opinion in the resolution adopted by the ECOSOC on the IFC in June 1952.

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[2] The Eighteenth Session of ECOSOC was held in Geneva June 29–Aug. 6 and Nov. 5–Dec. 16, 1954.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 211th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, June 1, 1954

CONFIDENTIAL

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
Mr. Andrew N. Overby
Mr. George H. Willis
Mr. Henry J. Bittermann
Mr. George Bronz

Mr. Thorsten V. Kalijarvi, State Department
Mr. Jack C. Corbett

Mr. Samuel W. Anderson, Commerce Department
Mr. Clarence I. Blau

Mr. M.S. Szymczak, Board of Governors, Federal Reserve System
Mr. Lewis N. Dembitz

Mr. Ellsworth B. Buck, Foreign Operations Administration
Mr. Steuart L. Pittman
Mr. Arthur E. Burns
Mr. Jack F. Bennett

Gen. Glen E. Edgerton, Export-Import Bank
Mr. Hawthorne Arey

Mr. Frank A. Southard, International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. Edmond C. Hutchinson, Bureau of the Budget, Visitor
Mr. C. Dillon Glendinning (Secretary)
Mr. C. L. Callander (NAC Secretariat)

1. Foreign Operations Administration Loan-Grant Policy Proposal

The Council considered NAC Document No. 1635,[1] a proposal advanced by the Foreign Operations Administration for a loan-grant policy in the foreign aid program. The Council also had before it NAC Document No. 1636,[2] submitted by the Department of Commerce in connection with the proposed policy.

Mr. Buck explained that the FOA proposal was a step toward using loans rather than grants in the aid program. Under the proposal, repayments of loans in either foreign currencies or dollars would go into a special revolving fund, which could be used for

[1] Entitled "FOA Loan-Grant Policy Proposal," dated May 28, 1954, not printed. (NAC files, lot 60 D 137, "Documents")

[2] Entitled "Loan-Grant Policy Proposal," dated May 28, 1954, not printed. (NAC files, lot 60 D 137, "Documents")

loans and other purposes without further reference to the Congress, provided the uses were covered by the original loan agreement. The FOA proposal would permit such use of local currencies without regard to the provision of law (Section 1415 of Supplemental Appropriation Act, 1953)[3] which requires corresponding payments out of dollar appropriations. He added that the special fund was envisaged as a fund that would be built up over the years; to the extent that it did so the need for additional appropriations would be obviated.

The Council discussed the proposal at length, with particular reference to United States policy on loans with uncertain repayment prospects. Mr. Anderson felt that the FOA proposal would put a premium on attempting to devise schemes for using repayment proceeds which would be received a considerable time in the future. Mr. Kalijarvi foresaw difficulties with the Congress on the proposal because of its departure from usual fiscal practices. Mr. Brundage stated that the Bureau of the Budget and the General Accounting Office are opposed to the use of contingency reserves, of which the proposed special fund would be one type. Mr. Overby recalled that the Executive Branch has historically been opposed to "fuzzy" loans, but he noted the recent statements of the Randall Commission and of the President which appeared to involve approval of the concept. Mr. Hutchinson felt that Mr. Randall was thinking in terms of dollar loans with vague repayment prospects rather than of loans which would be repaid in local currency. General Edgerton stated that "fuzzy" loans are distinguished from Eximbank and International Bank loans by the interest rate provisions and by terms of repayment. He felt that under some unusual conditions there might be a place for loans which would leave a residual amount for renegotiation at the end of the repayment term, or for loans with grace periods long enough to allow the projects to begin to pay off. The normal business of the Eximbank could be damaged if such loans were ineptly negotiated, however, and he felt that the Eximbank should be informed about such loan proposals early, before the prospective borrowers have their appetites whetted for easy loan terms. The Chairman directed that the minutes record the importance of close consultation between FOA and the Eximbank and the International Bank with respect to such loan proposals.

The Chairman observed that the discussion indicated the need for great ingenuity in providing for a satisfactory mechanism for making "fuzzy" loans without raising the likelihood of disputes with prospective borrowers over the terms of repayment and possi-

[3] Public Law 547, enacted July 15, 1952; for text of Section 1415, see 66 Stat. 662.

ble formal default, and that it raised a serious question concerning the use of contingency reserves by Government agencies.

After some further discussion of the mechanics of the proposed fund, the Council turned to the question of the amount. It was suggested that it might be undesirable to name a specific sum, especially in view of the fact that $100 million would be a very substantial proportion of the total aid funds available, apart from the amount earmarked for Korea and Formosa. Mr. Buck felt that $100 million represented a fair proportion of the total aid program. Mr. Anderson pointed out that in view of their past exclusion from the foreign aid program and their continuing aspirations for aid from the United States, Latin American countries might feel that a "fuzzy" loan program with a specific sum named would be earmarked for them. He felt that this might raise problems in the administration of the program.

The Council then discussed the question of whether the draft legislation should provide for Congressional authorization for the use of the repayment proceeds paid into the proposed special fund. Several legal questions were raised which it was agreed would be checked by the legal staffs. Subject to resolution of these questions, the Council agreed that the paper should provide that the special fund could be used for either new loans or new purposes only if authorized by the Congress. The Council also discussed the type of projects which would be appropriate for "fuzzy" loans and agreed that the paper should allow flexibility in the selection of such projects. The Council finally agreed that the part of the paper dealing with the use of local currency repayments should refer to agreements between the United States and the borrowing countries. (Following the meeting the Foreign Operations Administration revised the paper in accordance with these suggestions. See NAC Document No. 1635 (Revised).)[4]

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[4] *Infra.*

NAC files, lot 60 D 137, "Documents"

Position Paper Prepared by the Foreign Operations Administration[1]

CONFIDENTIAL [WASHINGTON,] June 1, 1954.

Document No. 1635 (Revised)

SUGGESTED LOAN-GRANT POLICY

It is FOA policy:

That loans should be made, in place of grants, only on the basis that there is a responsible estimate in the U.S. Government that the recipient country has a future capacity to repay on the terms of the loan.

That it is not desirable U.S. policy to make a loan if it is estimated the other country could not repay it; if the country could not repay a loan and needs aid, from the standpoint of our national foreign policy it should be a grant rather than a loan.

That these loans shall not be made under circumstances where the need can properly be met by either IBRD or XM Bank; that the loans shall not be made in a manner that would substantially impair the countries' capacity to borrow from XM Bank or IBRD.

That the loans shall as a whole be medium- to long-term and shall be made under such conditions as approved by the NAC.

That loans should be generally directed, within an estimate of capacity to repay, toward and identified with those projects that are income earners within the other economy.

That the loans when made shall be serviced by the Export-Import Bank and not by any new or special agency or corporation.

That the loans should be negotiated on a basis of being repayable either in dollars or in local currency; that when loans are repayable in local currency they shall be denominated in dollars and an exchange rate guarantee shall be included; that if repayments are in local currency they shall be expended for purposes agreed between the United States and the borrowing country.

That the loans when repaid, whether in local currency or in dollars, shall be held in a special fund; that the fund may be used for either new loans or new purposes only as authorized by the Congress.

That of the total FY 1955 appropriation not less than $100 million shall be reserved for such loans and shall not otherwise be used.

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[1] This paper, originally Document No. 1635, was revised following the National Advisory Council meeting of June 1, 1954. It was approved at the Cabinet meeting on June 4, 1954, on the understanding that the first paragraph would be modified to give due regard to the repayment of loans in local currencies. (Memorandum by Frederick E. Nolting, Special Assistant for Mutual Security Affairs to Assistant Secretary Waugh, June 7, 1954, PPS files, lot 65 D 101, "Assistance to Foreign Countries")

NAC files, lot 60 D 137, "Documents"

Paper Prepared by the Staff Committee for the National Advisory Council on International Monetary and Financial Problems [1]

NAC USE ONLY [WASHINGTON,] July 1, 1954.

Subject: U.S. Position for 18th Session of ECOSOC Concerning the International Finance Corporation (IFC)

The Staff Committee submits the following alternative recommendations for the consideration of the Council:

Alternative A: 1. The U.S. Delegation should say that, after careful consideration of the question, the U.S. Government has decided that it is not prepared to support the establishment of the proposed International Finance Corporation.

2. If any resolution is submitted calling for further study of the International Finance Corporation (in view of the attitude taken by the International Bank such study assignment would presumably be given to some other body, probably an *ad hoc* group of experts) the U.S. Delegation should abstain on the vote.

Alternative B:. 1. The U.S. Delegation should state that, after careful consideration, the U.S. Government is unconvinced that the establishment of an IFC is either a desirable or necessary addition at this time to existing institutions for the financing of economic development, or to measures for stimulating private investment available to individual governments acting unilaterally or bilaterally.

2. The U.S. Delegation should be authorized to support action by the ECOSOC calling for further study or consideration of the IFC proposal, whether by the International Bank, a subcommittee of the ECOSOC, or otherwise. The Delegation should, however, be empowered to abstain if necessary to avoid an implication of U.S. support for the establishment of an IFC.

Alternative C: The U.S. Delegation should propose the establishment, under appropriate conditions, of an International Finance Corporation to be financed by governmental contributions equivalent to dividends received from the IBRD.

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[1] This paper was introduced for discussion at the 212th meeting of the NAC, July 2, 1954, the minutes of which are printed *infra*.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 212th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, July 2, 1954

NAC USE ONLY

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
Mr. Andrew N. Overby
Mr. Clarence E. Hunter
Mr. W. L. Hebbard
Mr. Henry J. Bittermann
Mr. Philip P. Schaffner
Mr. Charles R. Harley
Mr. Donald W. Curtis

Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett

Mr. Samuel W. Anderson, Commerce Department
Mr. Clarence I. Blau
Mr. Frederick Strauss

Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
Mr. Frank M. Tamagna
Mr. J. Herbert Furth

Mr. John Stambaugh, Foreign Operations Administration
Mr. Warren W. Shearer
Mr. Jacob J. Kaplan
Mr. Jack F. Bennett

Major General Glen E. Edgerton, (Ret.), Export-Import Bank
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. Neil H. Jacoby, Council of Economic Advisers, Visitor
Mr. Clayton E. Whipple, Department of Agriculture, Visitor
Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)

[Here follows discussion of convertibility problems.]

2. Proposed International Finance Corporation

Mr. Overby presented NAC Document No. 1649,[1] in which the Staff Committee submitted for the consideration of the Council three possible alternative United States positions on the proposal for an International Finance Corporation, for use at the 18th Session of ECOSOC.

[1] *Supra.*

Mr. Anderson suggested that as part of the United States preparation for the Economic Conference in Rio,[2] it would be wise to develop a proposal for the establishment of an IFC as an experiment for a term of 5 years with a provision for its automatic liquidation at the end of that time unless two-thirds of the stockholders voted affirmatively to continue it. He felt that such a plan could appropriately be presented to the Rio Conference as a United States policy proposal for submission to the next Congress. Thus, he favored a suitable modification of Alternative B. Mr. Overby outlined the principal substantive arguments against the IFC, i.e., that the use of Government funds for equity investment is not desirable; and that the operations of an IFC by shielding underdeveloped countries from the forces that might otherwise persuade them to establish attractive conditions for private investment, would discourage private investment rather than encourage it.

Mr. Waugh argued that the proposal was substantial and important and that, therefore, the 17 months already elapsed was not an unreasonable period of time for the new administration to study it. He felt that the Export-Import Bank has been doing a substantial business in loans, and that the Foreign Operations Administration loan policy proposals may be significant. He did not like the use of United States Government funds in equity financing and thought that the possibility of regional development banks might be explored more fully. He stated that the Department of State preferred Alternative B with the thought of examining the case again in a year. He would oppose any announcement of intention at the Rio Conference and would rather prefer to see the United States Delegation discuss what had already been done by the Export-Import Bank and F.O.A.

Mr. Marget favored the substance of Alternative B with perhaps some revision of the language, with the understanding that there be no United States commitment to the proposal. General Edgerton and Mr. Whipple indicated that their preference would be for Alternative A. Mr. Overby suggested that any further study of the proposal should be done by the International Bank rather than by ECOSOC.

Mr. Burgess summarized the discussion by saying that the consensus was in favor of Alternative B without too much encouragement for the idea of establishing an IFC. He suggested that the Staff Committee could work out any revisions in the wording of the

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[2] The Meeting of Ministers of Finance and Economy was convened as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council at Quitandinha, Brazil, on Nov. 22, 1954. For a list of the U.S. Delegation to the meeting, see Department of State *Bulletin*, Nov. 29, 1954, pp. 837–838. For documentation, see vol. IV, pp. 313 ff.

position paper that seem necessary in view of the discussion (see NAC Document No. 1650).[3] The Council agreed to this suggestion, and approved Alternative B as amended at the meeting.

Action: The following action was taken (Action No. 708):

The National Advisory Council approves the following position on the proposal for an International Finance Corporation, for the 18th Session of ECOSOC:

1. The U.S. Delegation should state that, after careful consideration, the U.S. Government is unconvinced that the establishment at this time of an International Finance Corporation is either a necessary or desirable addition to existing institutions for the financing of economic development, or to measures for stimulating private investment available to individual governments acting unilaterally or bilaterally.

2. The U.S. Delegation should be authorized to support action by the ECOSOC calling for further study or consideration of the IFC proposal, preferably by the International Bank. The Delegation should, however, be empowered to abstain if necessary to avoid an implication of U.S. support for the establishment of an IFC.

[3] Not printed. (NAC files, lot 60 D 137, "Documents")

Key files, lot 58 D 33, "Memoranda (General) 1954"

Memorandum by the Special Assistant for Charter Review (Bloomfield)[1] *to the Assistant Secretary of State for United Nations Affairs (Key)*

[WASHINGTON,] August 23, 1954.

Subject: The Current US Position in the UN—A Pessimistic Appraisal

The failure of Congress to appropriate funds for the UN Technical Assistance Program for 1955 necessitates an urgent reexamination of our general position in the UN. We should step back for a moment and reflect on what the overall picture adds up to in the light of our long-term national interest.

Although the 84th Congress may provide new funds for a TA contribution, the impression which the present action will convey to friend and foe alike is inescapable. If the Soviets have any sense at all they will triple their contribution at the forthcoming pledging conference and take over the program from us lock, stock and barrel. In the language of business, painfully applicable here, they will take over the tangible and intangible assets and the good will.

[1] Lincoln P. Bloomfield.

Our act of self-mutilation may thus cost us very dearly in the scales of the Cold War.

This potential disaster—and for planning purposes we must assume the worst—requires that we check over our remaining ammunition to see what shots are left in the locker.

Ignoring for the moment our purely verbal policies, what are our current action policies toward the UN? There is only one US action policy toward the UN today of the first magnitude. In effect it is *the* US policy toward the UN, to which all other policy considerations are subordinated: to keep out the Chinese Communists.

There are also some secondary US action policies toward the UN, which are executed with vigor. Among them currently are these: to avoid debate on New Guinea; to prevent payment of the Administrative Tribunal Awards; to prevent creation of economic development or financing instrumentalities; to prevent conclusion of treaties in the field of human rights; to prevent election of Satellites to organization or to posts; to curtail contributions to special programs; and to avoid taking a position on one side or the other of any colonial issue.

These are illustrative. I personally agree with practically all of them, as individual propositions. But it will be seen that they have one striking feature in common: they are all completely negative. Cumulatively, they tend to give the impression that our participation in the UN is at best a holding operation, at worst a liability that we are unwilling or unable to liquidate.

Now this is clearly not so, for reasons which need no restatement here. Nor should we necessarily change any of the policies I have listed. The problem, as I see it, is to regain the offensive in the UN, which we have temporarily lost.

Although the national interest clearly demands that we make the maximum intelligent use of all available instrumentalities in waging political warfare with the Soviet system, I am not convinced that we are doing this with the UN. The UN, completely apart from its possible long-range virtues as a political and legal institution, is, in the here and now, an instrumentality with great potential for blunting the Soviet strategy, which, as laid out at the 19th Party Congress in Moscow in the fall of 1952 by Stalin and Malenkov,[2] is to isolate the "militaristic" United States from the non-communist world. Any ready-made opportunity which the UN offers to accumulate political strength on our side should be seized or, if it does not exist, it should be created. As it is, it is the Soviets who are exploiting the opportunities, and we who are being left behind.

[2] Georgiy Malenkov, Deputy Chairman of the Soviet Council of Ministers, 1946–1953.

The political logic of planning a counter-offensive in the UN is thus compelling, and our national interest is very badly served by policies which are based on the supposed strength of American isolationism or American parsimony. In this connection, the last two Gallup polls show overwhelming public support of the UN and so-called "internationalism", and completely repudiate isolationism as the view of any but a very small minority.

What then can we do?

If the position on Technical Assistance can somehow be retrieved, the picture will of course improve, in the sense that we will be back where we were two months ago. If another positive and creative program can be developed which has some real content and on which we are prepared to act, the situation will be altered for the better. The atomic pool idea did seem a possible answer to this need, but almost a year has passed without action. One major difficulty is that any constructive program would cost money, thus running counter to present budgetary policies. Also, although this kind of strategy may be worth more in the Cold War than a pair of infantry divisions, the currently invidious label of "do-goodism" makes it very difficult to get a sympathetic hearing for any new non-military project.

On Technical Assistance, despite the Department's failure to appeal directly to Senator Bridges[3] at a time when it might have helped, it is really never too late when the national interest and the national reputation are at stake. In any event, an explanatory statement by the President is clearly called for by considerations of national self-respect. But as to the continuing American predicament in the UN, some fresh, hard and imaginative thinking is in order. I don't think we in UNA have the time or the objectivity to do the sort of overall planning needed. Perhaps the Policy Planning Staff could turn their attention to this instrument of diplomacy, which they have consistently undervalued but have never really studied. They just might come up with answers which could command top level confidence. I think they should at least give it a try.

[3] Styles Bridges (R.-N.H.), Chairman of the Senate Appropriations Committee.

320/9-354 : Circular instruction

The Acting Secretary of State to Certain Diplomatic Offices [1]

OFFICIAL USE ONLY WASHINGTON, September 3, 1954.

CA-1601. Subject: Economic Issues at the Forthcoming (Ninth) Session of the General Assembly.

[1] Sent to 54 Embassies, and repeated for information to 4 additional Embassies.

The Department normally desires to exchange views with other friendly members of the United Nations concerning economic issues which may be expected to arise during the Ninth General Assembly, scheduled to convene in New York on September 21, 1954. However, after reviewing the proposed agenda (A/2667), it is considered that no useful purpose would be served by soliciting the views of governments on these items. In some cases the United States position is well known, and in others it is felt that no additional support for the United States position could be obtained at this time.

If, however, during the discussion of other subjects any governments raise questions as to the United States position on any of the economic items, the Embassy officers may base their replies on the following information:

It appears from the provisional agenda (A/2667), dated July 23, 1954, which has been distributed to all member governments that the economic topics at the forthcoming Regular Session (9th) of the General Assembly (GA) will be:

Item 12: Report of the Economic and Social Council on Economic and Social Matters;
Item 17: Korean Relief and Rehabilitation;
Item 25: Economic Development of Underdeveloped Countries:

(a) Question of the establishment of a special United Nations fund for economic development (SUNFED);
(b) Question of the establishment of an international finance corporation (IFC);
(c) International flow of private capital for economic development of underdeveloped countries;
(d) Land reform;

Item 26: Report of the Economic and Social Council on Expanded Program of Technical Assistance.

It is difficult to anticipate what issues will be raised under the Economic and Social Council (ECOSOC) Report (Item 12) aside from the proposal for SUNFED, the proposal for an IFC, and the question of price relationship on which ECOSOC established (17th and 18th Sessions) an Advisory Commission. The first two of these subjects, however, are also on the agenda for special consideration as sub-items under Item 25. It is not possible to make a comment at

this time on Item 17. Item 26 will be covered in a separate instruction.

SUNFED and IFC:

Both SUNFED and IFC have been under consideration in the GA and ECOSOC for several years. Their consideration at the 9th GA Session this fall will be in response to two resolutions adopted at the 8th Session last fall as well as in context of the ECOSOC Report.

The 8th Session resolution on SUNFED invited member governments to transmit to the Secretary General comments on recommendations contained in a blueprint for SUNFED, which was prepared by a committee of experts for the United Nations, and the degree of moral and material support which they would be prepared to give to such an institution. In addition, by this resolution Mr. Raymond Scheyven (past President of ECOSOC) was appointed to consult with the member governments and to make an interim report to ECOSOC at the 18th Session and a final report to the GA at the 9th Session.[2] In his interim report to ECOSOC this summer (18th Session) Mr. Scheyven emphasized the critical problems of underdeveloped countries and stressed the great contribution that such a fund could make to the solution of these problems. In his oral statement to the Council he enlarged upon his written report and indicated growing moral and material support for the Fund. In the opinion of the United States Delegation at the session, and some others, he claimed stronger material support than the replies of governments actually indicate. He did point out, however, that the principal capital exporting countries were not willing to contribute at this time.

Several resolutions were introduced by underdeveloped countries recommending more or less specific action toward setting up the Fund by the GA.[3] The United States Delegate in his speech reiterated the previous United States position on this proposal and indicated that he could not support these resolutions. The United States position has been that international tensions make it necessary to apply large resources to the requirements of defense, that until savings could be achieved through internationally supervised disarmament, there is little likelihood that our people will accept heavy additional financial commitments, that an international fund could not be successfully operated without considerable re-

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[2] Resolution 724B (VIII), passed Dec. 7, 1953; for text, see U.N. General Assembly, *Resolutions adopted by the General Assembly at its Eighth Session during the Period from 15 September to 9 December, 1953*, Supplement No. 17 (A/2630), p 10.

[3] Printed *ibid.*, pp. 9–13.

sources from many nations, and that to secure these resources would not under present circumstances appear feasible.

After some difficult negotiations, and because of the recognition of the underdeveloped countries and Mr. Scheyven that from a practical point of view no further steps toward the establishment of SUNFED could be made without the cooperation of Great Britain and the United States, ECOSOC adopted a resolution recommending (1) that the GA urge governments to review their respective positions with regard to SUNFED in accordance with changes in the international situation; (2) that the appointment of Mr. Scheyven be extended in order that he may continue his consultation with governments. The vote on this resolution was unanimous.[4]

The GA (8th Session) resolution last fall on IFC urged governments to give consideration to the establishment of such a Corporation and to inform the International Bank, which by a previous ECOSOC resolution was called upon to study and report on this proposal, as to their views on the possibility of supporting such a corporation. The resolution also called upon the International Bank to continue consultation with the governments and to report the results of its further consideration to ECOSOC at the 18th Session.

There appeared to be a rather surprising lack of enthusiasm for the IFC at ECOSOC (18th) this summer and the debate was limited since it was apparent almost immediately that the majority of the members recognized that the establishment of IFC was not at present practicable. The Council adopted a resolution introduced by Pakistan, Australia, India and Norway recommending that GA request member states in a position to provide capital for an IFC to keep the problem under review and that the International Bank report further to the Council upon its consultation with governments and any further suggestions the Bank might have regarding such an institution. In the debate on this item, the United States took the position that we were unconvinced that the establishment at this time of an IFC is either necessary or desirable, but in view of the many difficulties and complex problems raised by the proposal, we were prepared to cooperate with other members of the Council who believed that the matter ought to be kept under review by the International Bank. Accordingly, the United States voted for the resolution.

The position which the United States will take at the 9th Session of the GA is still under consideration. In view of the rather exten-

[4] Resolution 532A (XVIII), passed Aug. 4, 1954; for text, see United Nations, *Economic and Social Council, Official Records: Eighteenth Session, 29 June–6 August 1954, Resolutions, Supplement No. 1,* pp. 2–3.

sive discussions and debates which these two items have received in the United Nations over the past few years, however, no relevant issues are now foreseen which would require prior consultation with other governments.

International Flow of Private Capital:

The International flow of private capital for economic development will be on the GA agenda in connection with action taken by ECOSOC at its 17th Session after consideration of a Secretariat study on this subject. One of the conclusions of the study was that an increase in private capital exports today, however important for production in the future, can be expected to make only a minor contribution towards restoring economic stability because the prevailing economic uncertainty tends to reduce the volume of private capital for investment. In the discussion the United States Delegation stressed its sympathy with the desire of underdeveloped countries for accelerated economic development and stated that private capital can play an increasingly important role provided steps are taken to create conditions making for a favorable international investment climate. To these ends it introduced, jointly with Belgium, Pakistan and Turkey, a draft resolution which recognized the necessity for action by the underdeveloped countries to remove impediments to the flow of capital and included a number of recommendations both to countries seeking to attract foreign capital and to countries able to export capital. A compromise resolution finally adopted recommends ways capital importing countries can improve their investment climates and urges capital exporting countries to take measures designed to increase the flow to capital-importing countries. The resolution further recommends that both groups of countries consider the possibility of establishing investment corporations designed to encourage the participation of private investors. The United States accepted the latter provision in order to win the support of some underdeveloped countries for the resolution as a whole.

It is expected that the GA will endorse this resolution. Although no issues on it are now foreseen in the Assembly which would require prior consultation with other governments, Missions should take advantage of any opportunity to encourage its support, especially in countries not represented at the 17th ECOSOC.

[Here follows discussion of the issues of land reform, international commodities, economic development of fisheries, and the establishment of a world food reserve.]

SMITH

398.051 IFC/11-254 : Telegram

The United States Representative at the United Nations (Lodge) to the Department of State

OFFICIAL USE ONLY NEW YORK, October 8, 1954—7 p. m.

Delga 77. Re: US position on IFC. This telegram has reference to International Finance Corporation and particularly to US position which is in opposition to its establishment at this time. USDel discussed matter this morning and as result urges that US position be changed so as to enable USDel to sponsor with others resolution to authorize IFC along lines suggested by IBRD with other conditions acceptable to US to be worked out in concert with participating governments.

Senators Smith and Fulbright and delegates Jackson, Straus, Nash, Mahoney, Lord, Johnson and Wadsworth and also Hotchkis support this position.[1]

In urging this change, delegation points out that under present world conditions: 1) IFC is sound in principle; 2) IFC can be successfully operated with proper safeguards; 3) IFC would be administered by IBRD, as successful institution; 4) IFC would serve to encourage free enterprise and participation by private capital in under-developed countries; 5) IFC would help to convince under-developed countries that in a UN organization US has their welfare at heart in proposing means of access to secondary and equity financing on approved businesslike projects.

It is also suggested that possibility of securing US participation in IFC by consent of Export-Import Bank to make investment in IFC, or as alternative to secure consent of FOA to make an investment in IFC, be explored.

It is particularly urgent that our position be changed as now requested because: 1) US position on whole GA agenda is predominantly negative or neutral, and maintenance of our prestige and leadership is thereby made more difficult: 2) US position on technical assistance is neutral until further Congressional action; 3) there is growing possibility that SUNFED, under leadership of Netherlands and backed by almost all under-developed countries, might well be authorized at this session.[2]

LODGE

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[1] H. Alexander Smith, J. William Fulbright, C.D. Jackson, Roger W. Straus, James Philip Nash. Charles W. Mahoney, Mary P. Lord, Ade M. Johnson, James J. Wadsworth, and Preston Hotchkis.

[2] Preston Hotchkis, U.S. Representative in the Economic and Social Council, followed up this telegram with a letter addressed to Hauge, dated Oct. 28, 1954, which enumerated in greater detail the reasons for the U.S. Delegation's belief that the United States should support the IFC in principle. (E files, lot 60 D 68, "International Finance Corporation, 1950-1956")

103 XMB/10-2854

Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) to the Secretary of State[1]

TOP SECRET [WASHINGTON,] October 28, 1954.

Subject: Policies With Respect to the Export-Import Bank.

Problem:

Areas of difference between the Treasury Department and the State Department with respect to the policies and operations of the Export-Import Bank.

Background:

While the operations of the Export-Import Bank have not formed a major part of our overseas financial assistance in the last five or six years, the transactions of the Bank have been significant in our relations with Latin America and with certain other countries. After the extension of the $300 million loan to Brazil in early 1953, Reorganization Plan No. 5[2] was submitted to Congress and came into effect in early August. The principal effect of this Plan was to abolish the Board of Directors of the Bank and thereby remove the Secretary of State from his ex officio position as Director. In addition, it removed the Bank's principal officer from membership in the NAC.

Senator Capehart, in September, commenced hearings upon the operations and organization of the Bank to determine what might be done to reactivate this Organization. At the opening session of Senator Capehart's Committee on this subject, Secretary Humphrey stated that "The Export-Import Bank implies the aid to exports and imports and to current trade by loans of much more rapid turnover and shorter duration." He further stated, "However, as Secretary of the Treasury I do want to make clear to everyone that the Government must question both its right and its financial ability to continue to use taxpayers' money to finance investments abroad on a large scale in the development of competitive enterprise." (Tab A)[3]

Following extensive investigations and hearings the Senate Banking and Currency Committee reported as follows:

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[1] Drafted by Corbett.

[2] An act to provide for the independent management of the Export-Import Bank of Washington (Public Law 570), enacted Aug. 9, 1954; for text, see 68 Stat. 677.

[3] No tabs found with the source text.

"Your committee finds no legislative limitation upon the loan authority of the Export-Import Bank that would exclude it properly from making long-term, medium-term, or development loans.

"Any distinction between long-term and short-term credits or between exporter credits, as such, and loans to facilitate the purchase by United States private investors abroad of capital goods and equipment in the United States is a highly artificial one, and quite undesirable from the standpoint of the interests of our country. The bank should sympathetically consider kinds and types of proper loan applications irrespective of term which would aid in facilitating the exports of the United States, maintain our industrial potential, and provide continuing employment in our country."

The House Banking and Currency Committee expressed similar views. The Bill reorganizing the Bank was passed in August 1954. On January 22, the NAC took action with respect to the Export-Import Bank lending policy and this action has been widely interpreted as restricting the operations and field of activity of the Export-Import Bank. (Tab B)

Bank Areas of Difference

1. *The Bank as an Instrument of Foreign Policy*

The Department has long regarded the Bank as an instrument of foreign policy and in this regard was supported by the Randall Commission Report which reads as follows:

"The Export-Import Bank is essentially an instrument of United States foreign policy. The International Bank for Reconstruction and Development, on the other hand, promotes the interests of the United States broadly in the field of foreign economic development. The record does not indicate that there has been harmful competition or duplication in the operations of the two banks."[4]

The removal of the State Department from the Board of the Bank eliminated the statutory expression of this point of view. The Treasury was in full accord with this reorganization of the Bank. The Bank is the only permanent financial organization operating in the foreign field. The Department has and must continue to place a great emphasis on the effective operation of the Bank.

2. *Types of Loans*

The attitude of the Treasury towards the types of loans that the Export-Import Bank should properly make is mentioned above. In considerable measure this view was reiterated at a recent NAC meeting upon the subject. (Tab C)

The Department, both from the point of view of the conduct of foreign relations and foreign economic policy, holds the view that the Bank should not be so limited in its lending policy. The Bank's

[4] Commission on Foreign Economic Policy, *Report to the President and the Congress* (Washington, Jan. 23, 1954), p. 24. See the editorial note, p. 49.

lending policies should be more than the simple promotion of U.S. exports and should look towards participating in a healthy development of the economies of friendly countries, principally in Latin America. This objective cannot be served by severe limitations on the types of loans to be made and upon the terms of such loans.

3. *Legal Authority*

There is attached a copy of the memorandum by the Legal Adviser[5] on this point. It demonstrates, and in this it is supported by the Bank's own officials as well as by legislative history, that this point of view substantially contradicts that expressed by Secretary Humphrey at the recent NAC meeting. (Tab D)

4. *Volume of Lending*

No detailed discussions have taken place between the Department and the Treasury concerning the volume of prospective lending operations by the Bank. However, it is clear that unless a substantial intensification takes place repayment to the Bank will exceed disbursements. Indeed, the Bank's officials have estimated that the Export-Import Bank can lend over $5 billion in the next ten years with no drain on the Treasury cash budget. (Tab E)

5. *Loans vs Aid*

Unless the Bank's lending operations are substantially accelerated we will be under real and increasing pressure to seek appropriated funds to assist economic development in Latin America. A more vigorous Export-Import Bank will do much to avoid this eventuality and at the same time will give the U.S. a reasonable prospect of repayment with interest of such loans.

Clarification of the foregoing points would do much to give substance to the policy decisions with respect to Latin America taken by the NSC. (Tab F) While this policy envisages increased activity for the Bank, it does not deal with some of the areas of misunderstanding which have so sharply reduced the Bank's activity in Latin America.

[5] Herman Phleger.

398.051 IFC/11-254

Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[1]

OFFICIAL USE ONLY [WASHINGTON,] November 2, 1954.

Subject: U.S. Participation in the International Finance Corporation.

[1] Drafted by Robinson.

Problem:

To determine the Department's position on the Treasury's proposal concerning U.S. participation in the International Finance Corporation, and the Government's position on this subject in the U.N. General Assembly.

Recommendations:

1. The Department should support the position of the Treasury Department as presented in Tab A.[2]

2. The Department should seek NAC authorization to use this position as the basis for a statement in the General Assembly that the U.S. is prepared in principle to support the establishment of the International Finance Corporation, and to recommend to the U.S. Congress that the necessary funds be made available to pay our share of the capital required. Accordingly, the delegation should be authorized to initiate and/or support a resolution requesting the International Bank for Reconstruction and Development, in consultation with its members, to take the steps necessary for formulating a specific proposal for the establishment of the Corporation.

Discussion:

1. The Treasury's paper summarizes the nature of the proposed International Finance Corporation, and the principal conditions which would be attached to its establishment. This proposal has been under discussion in the U.N. since 1951, and throughout these discussions U.S. Delegations have maintained a position against the immediate establishment of an International Finance Corporation but have supported resolutions which kept the proposal alive through further reviews and studies. Upon the recommendation of the entire U.S. delegation to the current session of the General Assembly, this position is now being reviewed (See Tab B).[3]

2. The Department has reviewed its own position with respect to the International Finance Corporation proposal, and is prepared to support it in principle along the lines of Treasury's recommendations. It is felt that the proposal is sound in principle and that it should be undertaken as an experiment in the encouragement of sound private enterprise abroad. Although a great many details of organization, operations and policies remain to be worked out, these can be handled in subsequent consultation with the International Bank for Reconstruction and Development which will presumably be called upon to formulate specific proposals for the es-

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[2] Below.

[3] Delga 77 from New York, Oct. 8, 1954, p. 295.

tablishment of the International Finance Corporation at an early date.

3. Although the Treasury's paper does not address itself to a statement of our position during the present session of the General Assembly, it is highly desirable that the Council authorize the delegation to indicate that the U.S. Government now supports in principle the establishment of an International Finance Corporation and to support a resolution in the Assembly to that effect which would also request the International Bank to proceed with the necessary preparations. (This would, of course, be conditional upon securing the necessary appropriation from Congress.) The U.S. delegation is faced in the General Assembly with a number of economic subjects on which it is forced to take negative or neutral positions. Accordingly, if the U.S. is prepared to support the International Finance Corporation proposal, it is essential that this be indicated during the present session. Although this will not necessarily detract from the pressures for favorable U.S. action on other economic subjects, it will demonstrate that the U.S. is approaching these matters with some flexibility and is prepared to exercise leadership in an important area of U.N. concern; namely, measures to encourage private enterprise and the international flow of private capital.

[Tab A]

Paper Prepared in the Department of the Treasury[4]

NAC USE ONLY [WASHINGTON,] November 2, 1954.
Document No. 1698

Subject: U.S. Participation in the International Finance Corporation, an Affiliate of the International Bank

The Treasury Department submits for consideration of the Council the recommendation for U.S. participation in an International Finance Corporation to be organized as an affiliate of the International Bank for Reconstruction and Development to stimulate private investment by making loans without member government guarantee along the lines indicated below.

If the Council concurs, the Chairman would seek approval of the President to consult with Congressional leaders, to enter into discussion with the International Bank and other members, if appropriate, looking to the establishment of the Corporation, and to

[4] The Treasury Department submitted this paper to the National Advisory Council for consideration at its Nov. 3, 1954, meeting, the minutes of which are printed *infra*.

submit legislative proposals to the Congress at the appropriate time.

The International Finance Corporation would be an intergovernmental body whose basic purpose would be to assist in the development of productive private enterprises in its member countries and to that end to encourage and promote the flow of private capital, domestic and foreign, into such enterprises. The Corporation would emphasize the financing of development projects in under-developed areas. The Corporation would be created by international agreement open to signature by any member of the IBRD. Membership in IBRD would be a prerequisite to membership in the Corporation.

The Corporation's initial capital would be provided by member countries through subscriptions to its stock. The authorized capital of the Corporation would be $100 million, the subscription of each member country being in proportion to the member's share in the capital stock of the International Bank for Reconstruction and Development. The U.S. subscription would be approximately $35 million. The Charter would not come into effect until $75 million had been subscribed by a minimum of 30 countries.

While the capital of the Corporation would be subscribed by governments, the Corporation would be empowered to sell its own obligations in private capital markets without government guarantee as a source of additional funds. The Corporation would also be expected to sell securities from its portfolio to private investors whenever feasible.

The Corporation would be empowered to make loans to private enterprise without government guarantee, including debentures bearing interest, payable only if earned, and debentures convertible into stock when purchased from the Corporation by private investors.

The Corporation would not provide equity financing as had been discussed in some of the earlier proposals for an International Finance Corporation. It is the view of the President of the International Bank that the features of actual ownership and voting power can be eliminated without seriously handicapping the Corporation.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 218th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, November 3, 1954

NAC USE ONLY

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
Mr. Andrew N. Overby
Mr. George H. Willis
Mr. Elting Arnold
Mr. Henry J. Bittermann

Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett

Mr. Samuel W. Anderson, Commerce Department
Mr. Frederick Strauss

Gov. Wm. McC. Martin, Jr., Board of Governors, Federal Reserve System
Gov. M. S. Szymczak
Mr. Lewis N. Dembitz

Mr. Lynn U. Stambaugh, Export-Import Bank
Mr. Hawthorne Arey

Mr. Edward B. Hall, Foreign Operations Administration
Mr. Jack F. Bennett
Mr. Devereux Parle

Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. E. C. Hutchinson, Bureau of the Budget, Visitor
Mr. W. G. Bodwick, Department of Agriculture, Visitor
Mr. Oscar S. Zaglits, Department of Agriculture, Visitor
Mr. C. Dillon Glendinning (Secretary)
Mr. C. L. Callander (NAC Secretariat)
Mr. Sidney B. Wachtel (NAC Secretariat)

[Here follows a table of contents.]

1. Proposal for an International Finance Corporation

The Council considered NAC Document No. 1698[1] containing a recommendation for United States participation in an International Finance Corporation. The Chairman remarked that the IFC proposal had been under consideration in the U.S. Government for a considerable period of time and that the present proposal was developed following a request by the United States Delegation to the United Nations for reconsideration of the United States position.

[1] *Supra.*

He noted that the IFC proposal had been considerably improved by the elimination of the provision for equity financing, and outlined the procedure contemplated. If the Council approved the proposal in principle, Treasury would request Presidential approval and then consult with interested Congressional leaders. A public announcement of the intention of the Administration to submit the proposal to the Congress would be made prior to the Rio Conference.

Mr. Waugh stated that the Department of State was willing to support the present proposal, largely because of the importance to the United States of avoiding a perpetual negative position. State also agreed with the procedure outlined by the Chairman. He felt that announcement of the IFC proposal might forestall a Latin American proposal at the Rio Conference for an Inter-American Development Bank.

Mr. Martin stated that he remained unconvinced that the IFC proposal had economic merit and he doubted the need under present conditions for an additional international institution of this type. He also felt that the IFC might raise problems with respect to the operations of the Export-Import Bank and the International Bank. He indicated, however, that if the Council felt it necessary to approve the proposal on political grounds, he would not oppose it.

Mr. Anderson indicated approval of the principle of the proposal and suggested that the Corporation might reasonably begin business after $50 million have been subscribed of the currencies most valuable for lending purposes, rather than waiting for subscriptions of $75 million and 30 members. He also favored, as a means of emphasizing its experimental character, provision for automatic liquidation of the IFC after 5 years unless two-thirds of the members voted for continuation.

Mr. Hall stated that Governor Stassen is in favor of the IFC proposal, and suggested that more flexibility in the kinds of securities operations envisaged for the IFC would be desirable. He also felt that a limit on authorized capital higher than $100 million would be desirable, to simplify any necessary later increases in the capital of the Corporation, and he felt that 5 years would be too short a period to judge whether the Corporation would be effective.

Mr. Stambaugh stated that the Export-Import Bank is opposed to the IFC proposal on substantive grounds but recognizes the political factors in the situation. He expressed concern about the relationship of an IFC to the Export-Import Bank, and felt that the Council should be clearly on record that the IFC would in no way interfere with the operations of the Export-Import Bank. Mr. Lodwick expressed agreement with the proposal but emphasized that the Department of Agriculture likewise wished to be certain that

the IFC not interfere with the operations of the Export-Import Bank.

There followed a thorough discussion of the relationships of the IFC with the established lending institutions. The Council noted that the IFC was designed to fill a different role than either the Export-Import Bank or the IBRD. Accordingly, the Council agreed unanimously that the Corporation should be regarded as supplementing, and not competing with, or having any priority over, the Export-Import Bank and the International Bank. Thus the Corporation would not affect the activities of the Export-Import Bank in aiding in financing and facilitating the exports and imports of the United States.

Mr. Brundage indicated that the Bureau of the Budget was not enthusiastic over the proposal but that the removal of the provision for equity financing improved it considerably. He inquired concerning the method of providing the U.S. subscription. The Chairman replied that the funds would have to be authorized by the Congress, probably along the lines that funds were provided for the IMF and IBRD subscriptions.

In reply to the Chairman's question about the position of the IBRD's Board on the IFC proposal, Mr. Overby stated that the Executive Board of the Bank had at no time given its approval to the IFC proposal. It had merely decided that the management on its own responsibility could submit reports to ECOSOC. He emphasized that no decision on the policy of the United States had been given to the Bank's management, though there had been discussions about the form of the proposal.

Mr. Overby requested that great caution be exercised in discussing the proposal to avoid premature public knowledge of it, pointing out that the matter of timing of the announcement was considered important.

Mr. Waugh wished to make it clear that any action which the Council might now take would be on the principle rather than the details of the IFC proposal, which might require further study. He agreed that the functions of the Export-Import Bank must be continued as they had in the past and recognized that the creation of the IFC would involve additional problems of coordination between the two banks. Since Congress had given a mandate to the Council to coordinate these activities, the Council had special reason to scrutinize the proposal and its implications with great care.

At the conclusion of this phase of the discussion, the Council agreed to approve the proposal in principle and to approve the procedure for implementation as submitted, subject to the understanding previously reached with respect to the functions of the Export-Import Bank and the IBRD.

The following action was taken (Action No. 748):

"The National Advisory Council approves in principle U.S. participation in an International Finance Corporation to be organized as an affiliate of the International Bank for Reconstruction and Development, for the purpose of promoting private investment by making loans without member government guarantees. The capital of the Corporation would be set at $100 million, with a U.S. subscription of about $35 million. It is understood that the Corporation would not directly provide equity financing, and that it would supplement and would not compete with or have any priority over the Export-Import Bank or the International Bank."

The Chairman then invited discussion on specific aspects of the proposal. The discussion dealt primarily with appropriate means for re-examination of the IFC after a reasonable period, as suggested by Mr. Anderson. There was general agreement that the IFC should be regarded as experimental and that therefore some means should be adopted to raise the question, after a time, of whether it should be continued. Mr. Waugh stated that he was very dubious that the provision for review should be a part of the charter of the IFC. After discussion, the Council instructed the Staff Committee to outline the several alternate possibilities. The Council also noted that exploration of this question with the management of the IBRD would eventually be necessary.[2]

[Here follows discussion of the proposed Export-Import Bank earmark for loans to Iran and other matters.]

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[2] At the 220th meeting of the National Advisory Council on Nov. 10, 1954, Chairman Burgess informed the Council "that the IFC proposal had been discussed that day with the President, who had approved it, and that discussions would begin soon with appropriate members of Congress." (NAC files, lot 60 D 137, "Minutes") The Department of the Treasury officially announced U.S. support of the IFC on Nov. 11.

UNITED STATES INTERNATIONAL MONETARY AND FINANCIAL POLICY [1]

NAC files, lot 60 D 137, "Documents"

Memorandum by the Staff Committee of the National Advisory Council on International Monetary and Financial Problems to the Council [2]

CONFIDENTIAL [WASHINGTON,] January 4, 1952.

Document No. 1245

Subject: International Bank Use of U.S. 18% Contribution Recovered by Principal Re-payments or Portfolio Sales

Problem

By letter of December 3, 1951, (NAC Document No. 1234) [3] the International Bank requested the approval of the United States, pursuant to Article IV, Section 2(b), of the Articles of Agreement of the Bank,[4] for the re-loaning by the Bank of sums received as principal repayments by borrowers, or as the proceeds of portfolio sales

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[1] For previous documentation concerning this subject, see *Foreign Relations*, 1951, vol. I, pp. 1573 ff.

[2] The National Advisory Council on International Monetary and Financial Problems (NAC) was established pursuant to Public Law 171, "An act to provide for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development" (Bretton Woods Agreements Act), approved July 31, 1945 (59 Stat. 512). The purpose of the NAC was to coordinate the policies and operations of U.S. representatives on the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), Export-Import Bank of Washington, and all other U.S. agencies involved in the areas of foreign loans, financial exchange, and monetary transactions. The Secretary of the Treasury served as Chairman of the NAC; its membership included the Secretaries of State and Commerce, Chairman of the Board of Directors of the Federal Reserve System, Chairman of the Board of Directors of the Export-Import Bank, and the Administrator of the Economic Cooperation Administration (and successor agencies responsible for foreign assistance programs). The master file of NAC records for the years 1945–1958, retired as lot 60 D 137 by the Bureau of Economic Affairs of the Department of State, comprises item 70 of Federal Records Center Accession No. 71 A 6682.

[3] Not printed. (NAC files, lot 60 D 137, "Documents")

[4] For text of the Articles of Agreement of the International Bank for Reconstruction and Development, formulated at the U.N. Monetary and Financial Conference, held in Bretton Woods, New Hampshire, July 1–22, 1944, and opened for signature at Washington, Dec. 27, 1945, see Department of State Treaties and Other International Acts Series (TIAS) No. 1502, or 60 Stat. 1440. For documentation concerning the Bretton Woods Conference, see *Foreign Relations*, 1944, vol. II, pp. 106–135.

of obligations taken from borrowers, where the loan was originally made with U.S. 18% funds.

Discussion

It is provided in Article IV, Section 2(b), that repayments of principal received by the Bank on account of loans made out of 18% funds may only be re-loaned with the approval of the member whose currency is involved. The Executive Directors of the Bank have adopted a formal interpretation (Res. 192, June 14, 1951, reproduced in NAC Document No. 1156[5] as Appendix B) concluding that the consent of member countries is also required when the Bank recovers the principal of loans made out of 18% funds through portfolio sales, rather than through direct repayments by the borrowers. This interpretation is discussed in NAC Document No. 1156 (June 22, 1951).

On December 12, 1946, the Council decided to give blanket U.S. approval to the use of the entire 18% contribution of the U.S. ($571.5 million) for loans. (Action No. 104, December 12, 1946)[6] This decision was taken in the light of a staff paper which expressed the view that it would be unwise, as a matter of policy, for the U.S. to seek to review individual loans through its veto power over the use of its 18% contribution. Only Ecuador, El Salvador and Honduras, in addition to the United States, have given the Bank blanket authority to use their 18% contributions for loans. The use of limited amounts of currency has been agreed to by Belgium, Canada, Denmark, France, Guatemala, Italy, Mexico, Netherlands, Norway, Paraguay, and the United Kingdom. Certain other members of the Bank have indicated their willingness to consider releases at such time as particular cases arise. The bulk of the loans made by the Bank thus far have been disbursed in U.S. currency, either from the 18% contribution, or from funds raised by borrowing in the American market, although small amounts of other currencies have been made available and advanced to borrowers.

Principal repayments on and the proceeds of portfolio sales of loans originally made from the U.S. 18% contribution have been accumulating, and the Bank now holds about $6 million in such funds. This amount is neither being loaned nor invested, while the proceeds of the Bank's bond issues are invested in short-term U.S. obligations until needed for operations. Hence, the Bank would prefer to meet its current requirements with recovered 18% funds rather than with the proceeds of its bond issues.

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[5] A memorandum by the NAC Staff Committee to the NAC, dated June 22, 1951, not printed. (NAC files, lot 60 D 137, "Documents")

[6] Not printed. (NAC files, lot 60 D 137, "Actions")

The considerations which dictated giving blanket approval to the Bank for use of the original 18% contribution would appear to argue for a similar blanket approval for the relending of all recoveries of principal on loans made with such funds. However, the context of that decision is not the same as the situation today. The failure of most of the members of the Bank to give general approval to the use of their 18% contributions suggests the desirability of placing some limit on the further blanket authorization sought by the Bank at this time. While a requirement that the use of such recovered funds be subject to U.S. approval, loan by loan, would doubtless make the Bank's task more difficult in securing greater cooperation from its other members, a time limit on the U.S. approval for re-loaning recovered 18% funds might have a salutary effect in stimulating greater cooperation by other members of the Bank. Accordingly, it is proposed that the Bank's request be granted for a period of approximately one year so that the situation can be reviewed again near the end of 1952.[7]

[7] NAC Action No. 519, taken unanimously by the Council through a telephone poll completed on Jan. 7, 1952, reads as follows:

"The National Advisory Council grants the approval of the United States, pursuant to Article IV, Section 2(b), of the Articles of Agreement of the International Bank for Reconstruction and Development, to the reloaning by the Bank of any United States dollars which may have been, or may hereafter be, received by the Bank from borrowers or guarantors (including the proceeds of portfolio sales) on account of principal of direct loans made with the dollars paid into the Bank by the United States pursuant to Article II, Section 7(i). This approval shall be effective until January 1, 1953, unless sooner revoked." (NAC files, lot 60 D 137, "Actions")

NAC files, lot 60 D 137, "Documents"

Memorandum by the United States Executive Director of the International Monetary Fund (Southard) to the Acting Secretary of the National Advisory Council on International Monetary and Financial Problems (Willis)[1]

CONFIDENTIAL [WASHINGTON,] February 11, 1952.

Document No. 1261

Subject: Use of the Fund's Resources and Repurchases

1. Since I forwarded to you my memorandum on this subject (NAC Staff Document No. 558, January 31, 1952),[2] there have been further discussions both in the NAC Staff and in the Executive Board of the Fund. On the basis of these discussions, I propose to

[1] A covering transmittal memorandum to the NAC, dated Feb. 11, 1952, is not printed. It indicated that Southard's memorandum was a revision of an earlier one, dated Feb. 8, 1952, not printed.

[2] Not printed. (NAC files, lot 60 D 137, "Staff Documents")

take the following position in the Executive Board, for the reasons indicated, unless the National Advisory Council perceives some objection.

2. I would acquiesce in the statement which the Managing Director[3] has made as a framework for his discussions with members on the use of the Fund's resources. The essential elements of this statement are as follows:

(a) Decisions on use of the Fund's resources will have to be made case by case, to help members achieve the purposes of the Fund, with recognition that the task of the Fund is to help members that need assistance to deal with a temporary problem and who intend to pursue adequate policies to deal with the problem within a temporary period.

(b) The member's whole situation would be considered, including its past prudence in drawing and its voluntary repayments to the Fund.

(c) As a supplement to what may be called ordinary drawings, the Fund would be prepared to consider specific drawings to deal with special very short-term situations, with commitments to repurchase in periods up to 18 months. The Fund would also be prepared to give countries very much the benefit of the doubt with respect to drawings involving the so-called gold tranche. In accordance with the Fund's decision of May 1951,[4] the Fund would be prepared to consider assistance to enable the members to pursue programs designed to make progress toward the objectives of the Fund.

3. As to repurchase arrangements, the Fund would make clear that exchange purchased by members should not remain outstanding beyond the period reasonably related to the payments problem of the member, ordinarily not exceeding three years with five years as the outside limit. Where the drawing is within a bracket of the quota involving payment of interest, it would be made clear that the mandatory consultations occurring when the rate reaches 3½ percent per annum would be for the agreed purpose of arriving at appropriate arrangements to ensure complete repurchase within five years of the original drawing. With respect to so-called gold-tranche drawings, the Fund would request members to agree on a schedule of repurchases so that all amounts outstanding at the end of three years would be repurchased by the end of five years of the original drawing. These decisions having been taken, members

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[3] Ivar Rooth.

[4] Reference is to the proposal approved by the IMF Executive Board on May 2, 1951, outlining the circumstances in which the Fund's resources might be made available to increase the confidence of members undertaking actions that would help to resolve their respective internal monetary problems and to achieve the purposes of the Fund. For additional information, see International Monetary Fund, *Annual Report 1951* (Washington, 1951), pp. 81–82.

would be required to cite their agreement with such decisions at the occasion of any drawing.

4. A decision along the above lines would in my judgment fully preserve the basic principles of the NAC respecting the use of the Fund's resources. It should be emphasized that there will be advance notice on every proposed drawing which will give the NAC opportunity for review and for instructions to the U.S. Director.[5]

[5] The NAC approved Executive Director Southard's proposed position on the use of the IMF's resources in a telephone poll of its members completed on Feb. 12, 1952. (NAC files, lot 60 D 137, Document No. 1263) The IMF's decision with respect to the use of its resources was announced on Feb. 13, 1952; for text, see IMF, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1952* (Washington, 1952), pp. 87–90.

A/MS files, lot 54 D 291, "Currency"

Memorandum by the Deputy Assistant Secretary of State for Administration (Scott) to the Under Secretary of State (Webb)

CONFIDENTIAL [WASHINGTON,] February 20, 1952.

Subject: Potential Savings in Purchases of Foreign Currencies

The Treasurer of the United States has on deposit in various countries throughout the world foreign currencies acquired under Lend Lease Settlements, Surplus Property Agreements and other sources, and periodically receives accelerated payments in foreign currencies against these agreements.

Since fiscal year 1948, as a matter of policy, the Department has acquired large quantities of foreign currencies from the Treasury by purchase with appropriated dollars. This action has resulted in either the reduction of balances held by the Treasurer or the reduction of the indebtedness of a foreign government to the United States and simultaneously payment of U.S. dollars into miscellaneous receipts of the Treasury rather than into the economy of the countries involved.

Although the Department is not required by law to purchase all foreign currencies from Treasury, provision of our current appropriation requires the purchase of $7,500,000 in foreign currencies from Treasury.

The exchange rates at which foreign currencies are acquired by the Department have a bearing on the Department's expenses. It therefore is essential that realistic values be obtained wherever available.

The Treasury Department policy on sales of its foreign currency availabilities, except in certain Iron Curtain countries, has been one of adherence to official or officially sanctioned rates even

though such transactions are strictly an internal U.S. Government matter.

During recent months, disparities have developed between the exchange rates maintained officially, with respect to many currencies, and local curb markets, cross rates available in other countries or through other arrangements. The latter rates represent more realistic values with relation to the buying power of the U.S. dollar. Specific examples of countries in this category are Austria, France, Italy, Norway, Greece, Egypt and India where the Department's foreign currency needs are acquired by purchase from the Treasury at rates maintained officially. It is estimated that a potential annual savings of $1,500,000 can be effected in these seven countries.

In order that the Department may obtain realistic dollar values for the appropriated dollars used to procure local currencies, it is proposed that Treasury be approached and urged to meet the available markets not currently recognized in those instances where such markets represent realistic exchange rates with relation to the U.S. dollar.

Recommendation: It is recommended that you discuss the Department's foreign exchange problems outlined above with the Secretary of the Treasury[1] looking toward a liberalization of the Treasury's policy on exchange rates applied to foreign currencies held or acquired by the Treasurer of the United States abroad and offered for sale to U.S. agencies.[2]

W. K. SCOTT

[1] John W. Snyder.

[2] No information was found in Department of State files indicating whether Deputy Assistant Secretary Scott's recommendation was approved, or if discussions concerning the matter were ever held with Secretary Snyder.

NAC files, lot 60 D 137, "Documents"

The Acting Secretary of the National Advisory Council on International Monetary and Financial Problems (Willis) to the Council

RESTRICTED [WASHINGTON,] August 25, 1952.

Document No. 1365

Subject: Standby Arrangements[1] in the Fund

[1] A standby arrangement is essentially a decision of the IMF by which a member is assured that on request he will be able to purchase from the Fund currencies of other Fund members during a specified period and up to a specified amount. For an extensive analysis of standby arrangements, see Joseph Gold, *The Stand-By Ar-*

Continued

The attached draft Fund decision has been agreed by the Staff Committee as the basis for Council discussion of this subject. Underlined material represents additions,[2] and bracketed material deletions, that would be proposed by the U.S. Executive Director. The bracketed numbers 2 and 1 represent the proposed reversal of the order of the first two numbered paragraphs.

[Attachment]

INTERNATIONAL MONETARY FUND STAND-BY ARRANGEMENTS

DRAFT DECISION

The Fund is prepared to consider requests by members for stand-by arrangements designed to give assurance that, during a fixed period of time, transactions up to a specified amount will be made whenever a member requests and without further consideration of its position, unless the ineligibility provisions of the Fund Agreement have been invoked. The following paragraphs set forth the general framework for stand-by arrangements:

[2] 1. In considering the request for a stand-by arrangement *or a renewal of a stand-by arrangement,* the Fund would apply the same policies that are applied to requests for immediate drawings, *including consideration of the performance of the member in making progress in achieving the objectives and purposes of the Fund and in carrying out agreed programs of action.* The Fund would agree to a stand-by arrangement only for a member that would be in a position to make purchases of the same amount of exchange from the Fund.

[1] 2. Stand-by arrangements would [generally] be limited to periods of not more than six months, but could be renewed by a new decision of the Executive Board.

3. Such arrangements would cover not more than the portion of the quota which a member would be allowed, under Article V, Section 3, to draw within the period provided in the arrangement. This does not preclude the Fund from making stand-by arrangements for larger amounts on terms in accordance with Article V, Section 4.

4. A charge of ⅛ of 1% would be payable to the Fund at the time a stand-by arrangement is agreed. This charge would be payable in gold (or United States dollars in lieu of gold) or the member's currency as specified for other charges by Article V, Section 8 (f). In

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rangements of the International Monetary Fund: A Commentary on Their Formal, Legal, and Financial Aspects (Washington, 1970).

[2] Printed here in italics.

the event that a stand-by arrangement is renewed, an additional charge of ⅛ of 1% would be payable to the Fund.

5. A member having a stand-by arrangement would have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right of the member could be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions generally or in order to consider a proposal, made by an Executive Director or the Managing Director, that might lead to a formal ineligibility.[3]

[3] For discussion of the draft decision at the 196th meeting of the NAC, see the minutes of that meeting, *infra*.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 196th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, August 26, 1952

CONFIDENTIAL

Secretary John W. Snyder (Chairman), Treasury Department
Mr. David K. E. Bruce, State Department
Mr. Jack C. Corbett, State Department
Mr. J. J. Stenger, State Department
Mr. Loring K. Macy, Commerce Department
Mr. Frederick Strauss, Commerce Department
Mr. William McC. Martin, Jr., Board of Governors, Federal Reserve System
Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
Mr. Lewis Dembitz, Board of Governors, Federal Reserve System
Mr. Hawthorne Arey, Export-Import Bank
Mr. W. John Kenney, Mutual Security Agency
Mr. C. Tyler Wood, Mutual Security Agency
Mr. Melville E. Locker, Mutual Security Agency
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Andrew N. Overby, Treasury Department
Mr. Thomas J. Lynch, Treasury Department
Mr. William L. Hebbard, Treasury Department
Mr. Elting Arnold, Treasury Department
Mr. Henry J. Bittermann, Treasury Department
Mr. James J. Saxon, Treasury Department
Mr. Allan J. Fisher, Treasury Department
Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)
Mr. Sidney B. Wachtel (NAC Secretariat)
Mr. James W. Westcott (NAC Secretariat)

[Here follow a table of contents and discussion relating to the Seventh Annual Meeting of the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).]

2. *Stand-by Arrangements in the International Monetary Fund*

Mr. Willis stated that the question of stand-by arrangements arises in connection with the Fund meeting in Mexico City[1] because the Managing Director of the Fund has indicated his desire to make an announcement on this subject at the beginning of the meetings. The question has been discussed in two meetings of the Staff Committee and in the Fund Executive Board, although no action has been taken there. The Fund staff had originally recommended that stand-by arrangements be made available for fairly long periods (up to 18 months), and that they constitute, in effect, a guaranty that a country would be able to draw during the period covered. The Fund staff had also raised the question of whether a commitment fee should be charged whether or not an actual drawing was made.

After thorough discussion with the U.S. Executive Director, the Staff Committee is proposing to the Council that the draft decision now being considered in the Fund should be amended in some respects. The document before the Council (NAC Document No. 1365[2]) indicated the changes that in the opinion of the Staff Committee the U.S. Executive Director should introduce in the Fund. Mr. Willis explained that the first suggested change would make clear that, in considering any request for stand-by arrangement or a renewal of a stand-by arrangement, the Fund would apply the same policies as are applied to a request for an immediate drawing, "including consideration of the performance of the member in making progress in achieving the objectives and purposes of the Fund and in carrying out agreed programs of action." The Staff Committee feels that since a stand-by arrangement would in effect commit the Fund in advance to make actual drawings, any decision adopted by the Fund should specify clearly the tests that would be applied. The second suggestion, Mr. Willis continued, concerns the time period of such arrangements. The Fund staff now recommends that stand-by arrangements be "generally" limited to periods of not more than six months. The Staff Committee and the U.S. Executive

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[1] Reference is to the Seventh Annual Meeting of the Boards of Governors of the IBRD and the IMF, held in Mexico City, Sept. 3–12, 1952. For additional information and documentation concerning the meeting, see IBRD, *Seventh Annual Meeting of the Board of Governors: Summary Proceedings* (Washington, 1952).

[2] *Supra.*

Director suggest that the word "generally" be deleted to indicate clearly that stand-by arrangements would be limited to not more than six months.

In addition to those suggestions, the Staff Committee has agreed that a flat charge of ⅛th of 1 percent for a stand-by arrangement and for each renewal would be appropriate. Mr. Willis concluded by observing that while considerations relating to a member's formal ineligibility to draw might conceivably stop on actual drawing by a member which had received a stand-by arrangement, such cases would in practice be extremely rare.

Mr. Southard referred to his two memoranda (NAC Document No. 1358[3] and NAC Staff Document No. 609[4]) on this subject, and stated that the development of stand-by arrangements appeared to be desirable, provided that the safeguards indicated above were adopted. It has not been possible, he continued, to ignore the feeling of a number of Fund members that they do not know where they stand with respect to the use of the Fund's resources and therefore cannot make plans ahead which might include assistance from the Fund. These members feel that they cannot find out where they stand unless they request an actual drawing. In many cases, so they argue, they do not want actually to draw at a given moment. They might not be able to cite that they have a present need for the money, but they would like to know whether they could count on a Fund drawing if the need should materialize. The stand-by arrangement would mean that a country that would like to count on the use of the Fund's resources can find out whether it will be able to draw if it needs a drawing. In bankers' terminology, it would involve a virtually irrevocable line of credit. There are certain provisions whereby the right to draw could be terminated or suspended, for example through technical ineligibility of a country, but the arrangement would in practice be sufficiently irrevocable to meet the needs of these member countries. Mr. Southard pointed out the similarity between the proposed stand-by arrangements and the arrangements which had recently been worked out for Belgium.

Mr. Southard continued that the proposal is a proper development of Fund policy. However, it contains some element of calculated risk, like the gold tranche policy which the Council previously approved. Mr. Southard thought, however, that the gold tranche policy involved greater risks than the present proposal in that it in fact deprives the Council of a meaningful review of gold tranche

[3] Dated Aug. 14, 1952, not printed. (NAC files, lot 60 D 137, "Documents")

[4] Addressed to Glendinning, dated Aug. 7, 1952, not printed. (NAC files, lot 60 D 137, "Staff Documents")

drawings. The stand-by arrangement proposal does not eliminate Council review, but rather gives the United States every opportunity it would want to scrutinize every request for a stand-by arrangement.

Mr. Southard thought that this particular version of the stand-by proposal will not be welcomed by a number of Executive Directors. Some will say it goes too far, some that it doesn't go far enough, and especially that six months is not a long enough period. Some may believe that the proposal provides so little that it would be a mistake to publicize it. Mr. Southard thought that the U.S. Government would not want to publicize it if there was a lack of enthusiasm for it, and that it would be unwise to press it further if the arrangement did not seem to please the majority of the Board. However, Mr. Rooth is willing to try this approach.

The Chairman expressed the view that everyone present realized there were some features of the arrangement they would prefer to have different, but that it was desirable to increase the flexibility of the operations of the Fund. Such an arrangement could present some problems, since it departs to some extent from the initial conception of the Fund. He concluded, however, that present circumstances appear to call for progressive development of Fund policies.

Without further discussion, the Council approved the draft Fund decision on stand-by arrangements as submitted.

Action: The following action was taken (Action No. 574):

The National Advisory Council authorizes the U.S. Executive Director of the International Monetary Fund to support a decision in the Fund on stand-by arrangements along the lines set forth in NAC Document No. 1365.[5]

[Here follows discussion concerning an emergency loan to Pakistan and the issuance of $75 million of IBRD bonds in United States markets.]

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[5] The IMF's decision regarding standby credit arrangements was announced on Oct. 1, 1952; for text, see IMF, *Annual Report 1953* (Washington, 1953), pp. 95–96.

NAC files, lot 60 D 137, "Documents"

Representative Jacob K. Javits to the Secretary of the Treasury (Snyder), at Mexico City[1]

Document No. 1371 WASHINGTON, September 9, 1952.

DEAR MR. SECRETARY: The annual meetings of the International Bank for Reconstruction and Development and the International Monetary Fund afford an opportunity for the United States representatives to consider the usefulness of these agencies in the interests of the United States and of world peace and stability. There is widespread dissatisfaction with the operations of the Fund and the American representatives should utilize this opportunity to improve the usefulness of the resources now controlled by this agency. The Fund was established to overcome trade restrictions and currency instability. Its purposes were intended to be to deal with temporary balance of payments difficulties. But it is obvious that these purposes are unrealistic as the world has developed since Bretton Woods in 1944 and that the purposes of the Fund have become largely obsolescent due to world conditions. The following circumstances bear out this conclusion.

1. According to Sec. 4 of Article XIV of the Articles of Agreement of the Fund[2] it was intended that the postwar transitional period for maintaining restrictions on payments and transfers for current international transactions on the part of the members of the Fund should end March 1, 1952. This date has come and gone; yet the 1952 annual report[3] of the Fund says: "In this situation the use of exchange restrictions and quantitative import controls, frequently of a discriminatory nature, has seemed inevitable to many countries; and during the past year there has been a tendency to extend and intensify these restrictions and controls." At the moment the Fund is engaged in a series of conferences with its members on this subject, but action apparently must be deferred to an unforeseeable future.

2. Members of the Fund are complaining that the limited nature of the Fund's activities disables it from contributing to bring about the convertibility of currencies and from helping to facilitate international trade under existing conditions.

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[1] A covering memorandum, dated Sept. 23, 1952, not printed, transmitting this letter to the members of the NAC, indicates that identical letters were received by Overby, Southard, and Hooker. Secretary Snyder was in Mexico City to attend the Seventh Annual Meeting of the Boards of Governors of the IBRD and the IMF.

[2] For text of the Articles of Agreement of the International Monetary Fund, formulated at the U.N. Monetary and Financial Conference, held at Bretton Woods, New Hampshire, and opened for signature at Washington, Dec. 27, 1945, see TIAS No. 1501, or 60 Stat. 1401.

[3] IMF, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1952* (Washington, 1952).

3. Certain countries, like France, find it impossible to arrive at an agreement as to par value of their currency with the Fund in spite of the terms of the Articles of Agreement.

4. The total business done by the Fund since its inception aggregates slightly over $850,000,000 despite the fact that its aggregate capital exceeds $8,000,000,000 and it has available over $4,000,000,000 in gold, hard currencies and equivalent which is essentially frozen in terms of usefulness to the world. It is in effect admitted in the Third Special Report to the President and the Congress of the National Advisory Council on International Monetary and Financial Problems that the main activities of the Fund are now technical advice on foreign exchange practices and balance of payments difficulties to its membership and to conduct a world forum for finance ministers at the times of the annual meetings.

5. Operations of the Fund are showing a material loss. For the fiscal year ending April 30, 1952 this loss is $1,518,345. Only $236,718 of earnings have been realized from service charges on exchange transactions while over 90% of the total income—$2,994,595 compared with a total income of $3,252,193—represents "charges on funds holding of members' currencies and securities in excess of quotas".

It seems clear that those of us who are deeply interested in United States leadership in international cooperation must be alert to situations of this character before the opponents of cooperation get hold of them and misuse them as arguments against such cooperation. The International Bank has on the whole had an effective and useful career. Its operations have been much more limited than they should be, considering the needs for the development of the underdeveloped areas and the rehabilitation of war-torn economies but the capital with which it has operated, though inadequate, has been well and effectively used as far as it has gone. The same cannot be said of the Fund. This agency has not met the expectations of Bretton Woods or of the Congress when it approved Bretton Woods and authorized the United States to join the Fund. It has not satisfied the international community who are its members and the events of the last five years and the foreseeable future have largely invalidated any such limited role of a great international institution as "financing temporary balance of payments deficits on current account for monetary stabilization operations". Sufficient time has now elapsed in the course of the annual meetings so that the attitude of the other members can have been ascertained and I believe at this time the United States representatives should come forward with much more far-reaching proposals than they have already made. I commend the following to you therefore—

An effort should be made to put the resources of the Fund to much greater use than they are put to now for the purposes of

world peace and stability. Accordingly the United States representatives should sponsor a resolution to call a conference for the amendment of the Articles of Agreement of the Fund and the Bank with a view either (a) to consolidate the Fund and the Bank; or (b) to enable the Fund to operate in developing greater international trade through clearance and financing facilities. I think that the consolidation of the Fund and the Bank is the wiser and more effective course.

A merger of the Fund and the Bank I have been advocating since 1949 and I believe it more pertinent than ever now. The European Recovery Program has come to an end with the fiscal year ending June 30, 1952 and for the fiscal year 1952–53 the United States is engaged in the Mutual Security Program. Under this program the emphasis is upon military assistance and this is shown by the fact that of the appropriations for foreign aid for this fiscal year over 90% are for military assistance and under 10% are for economic and technical assistance. The International Bank will now have a much bigger role to play in the development of underdeveloped areas and the rehabilitation of war-torn economies still presenting such difficulties in so many parts of the world. This is a vital phase of the struggle of all the free peoples against totalitarianisms and this is the time to enormously strengthen the Bank for its mission.

I urge upon you action as aforesaid and would very much appreciate your views as soon as possible.

Sincerely,

J. K. JAVITS

NAC files, lot 60 D 137, "Documents"

The Secretary of the Treasury (Snyder) to Representative Jacob K. Javits [1]

Document No. 1388 WASHINGTON, October 21, 1952.

DEAR MR. JAVITS: The pressure of work in Mexico City in conjunction with the Seventh Annual Meetings of the Fund and Bank Boards of Governors unfortunately prevented an earlier reply to your letters of September 9, 1952, addressed to me [2] and to the U.S. Executive Directors and the Alternate Director of the Fund and the Bank.

The sessions of the Governors of the International Monetary Fund at Mexico City indicated greater interest than ever before in

[1] A covering memorandum, dated Oct. 20, 1952, circulating this letter to members of the NAC, is not printed.

[2] *Supra.*

the Fund itself and in the problems which fall within the scope of its Articles of Agreement. The fact that the Fund operates in a difficult field in which governments hold strong views on such related questions as internal economic policy, exchange policy, and trade policy serve to emphasize the importance of the institution and its work.

The Fund and the International Bank stress the importance of maintaining an international economic system in which trade, exchange and international investment are free from restrictions and controls. In my opinion, inadequate recognition has been given to the unpublicized work which the Fund has done in trying to get its members to curb inflationary policies and to follow sound budget, credit, and investment practices.

Your letter suggests as one alternative that the Fund's Articles might be amended to enable it "to operate in developing greater international trade through clearance and financing facilities." The National Advisory Council, after full consideration, has recently expressed its view in its Third Special Report to the Congress, that "The Articles of Agreement admit of the degree of flexibility necessary to adapt operations and policies of the Fund to changing conditions, and, accordingly, the Council does not recommend any amendments at this time." There was no indication at Mexico City that any other government favored a different view. In the course of the past year the Executive Board—with the active participation of the U.S. Director—continued its review of policies and procedures for making available the use of the Fund's resources for short-term assistance to members in achieving Fund objectives. On the whole, the Governors at Mexico City expressed considerable satisfaction with the progress which the Fund had made in this direction. The National Advisory Council, through the U.S. Executive Director, has supported the Fund's course in this program.

Your letter also repeats the suggestion of consolidating the Fund and the Bank. In replies to your earlier letters on this subject it has been pointed out that the Bank, which derives its loanable funds for the most part from the sale of its bonds, has not to the present time had any difficulty in raising funds for its loan purposes by the sale of its securities in the United States market. Additional securities have been sold as the Bank has required funds for lending purposes. Accordingly, it does not seem necessary to add to the Bank's capital at this time. The National Advisory Council fully sympathizes with the objectives of economic development and technical assistance, but it does not believe that a merger of the Fund and the Bank is necessary or desirable as a means to this end.

Sincerely yours,

JOHN W. SNYDER

NAC files, lot 60 D 137, "Minutes"

Minutes of the 198th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, May 18, 1953

CONFIDENTIAL

Secretary G. M. Humphrey (Chairman), Treasury Department
Mr. W. Randolph Burgess, Treasury Department
Mr. Andrew N. Overby, Treasury Dept. (and International Bank)
Mr. Herman L. Phleger, State Department
Mr. Jack C. Corbett, State Department
Secretary Sinclair Weeks, Commerce Department
Mr. Samuel W. Anderson, Commerce Department
Mr. William McC. Martin, Jr., Board of Governors, Federal Reserve System
Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
General Glen E. Edgerton, Export-Import Bank
Mr. Walter C. Sauer, Export-Import Bank
Mr. Melville E. Locker, Mutual Security Agency
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank and International Monetary Fund
Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)

[Here follows a table of contents.]

1. *Interest Rates on U.S. Government Foreign Loans*

The Chairman introduced the subject of the meeting and asked Mr. Burgess to outline the problem for the members of the Council.

Mr. Burgess stated that interest rates have been rising for some time, fundamentally because of conditions of supply and demand in the money market. He described the very heavy demand for funds so far in the first half of 1953 and pointed out that even taking into account the recent rise, the level of interest rates in the market is still low historically. He felt that the level of U.S. Government foreign lending rates had not yet fully adjusted to the conditions of the current tight money market. He noted that the Administration has a philosophy on Government lending different from that of the previous Administration—namely that there should be as little Government lending as possible. Government lending should be restricted to really marginal loans that would not be taken by pri-

vate lenders. Obviously, if Government interest rates are lower than interest rates in the private market the Government will be making more loans than it ought to make.

Mr. Burgess said that the Staff Committee had explored the problem thoroughly, and as a result of its work, is presenting to the Council two alternative actions with respect to medium and long-term loans to foreign governments or guaranteed by foreign governments or central banks. The first alternative would fix rates on loans of more than two years maturity at 2 percent above the current yield of Government securities of comparable terminal maturities, and would result in a rate at the present time of about 5 percent on 20-year loans. The second alternative, which would be a continuation of past policy, would increase rates to cover the recent increase in the cost of money to the Government, and would result in a current rate of about 4¼ percent on 20-year loans.

Mr. Overby noted that the differences of opinion in the Staff Committee related only to paragraph 1 (a) and 1 (b) of the recommended action. He understood that some agency representatives in the Staff Committee had preferred alternative 1 (b) rather than 1 (a), but he was not sure whether these staff views represented the opinions of the Council members. There was no disagreement in the Staff Committee with respect to paragraphs 2 and 3.

The Chairman stated that the question before the Council was the adoption of either 1 (a) or 1 (b), in addition to paragraphs 2 and 3, with the thought that the rate would be adjusted from time to time if necessary.

General Edgerton commented that there was some difference of opinion within the Export-Import Bank on the matter, but that he preferred alternative 1 (b), on the understanding that it would provide a floor for interest rates and would not preclude higher rates than indicated by the formula. He observed that Export-Import Bank loans are made with varying objectives in mind, and that in the case of some of these loans it would not be expedient or in the best interests of the United States to be bound by a rigid interest rate formula. He felt that because of the importance of the special considerations sometimes involved in Export-Import Bank loans, alternative 1 (a) was somewhat too rigid. The adoption of alternative 1 (b), viewed as a floor to interest rates, would preserve the necessary degree of flexibility.

Mr. Burgess asked General Edgerton what effect the adoption of alternative 1 (b) would have on Export-Import Bank rates in relation to International Bank rates. General Edgerton replied that if Export-Import Bank rates were set at the floor, they would be lower than International Bank rates. This would be the case where the special considerations are important. For example, he referred

to the development of strategic material production as a defense objective in which the U.S. has a special interest which would justify lower rates by the Export-Import Bank.

The Chairman advanced the view that in most cases Export-Import Bank rates ought to be as high as International Bank rates. General Edgerton agreed with this view. Mr. Overby pointed out that alternative 1 (a) would bring the rates of the two institutions to approximate equality.

The Chairman was of the opinion that the rule adopted should deal with the most commonly occurring cases, and that under special circumstances exceptions to the rule could be made. This would be preferable to the adoption of a rule that would cover the exceptional cases but not the usual cases. With this understanding, General Edgerton stated that he had no important reservations to alternative 1 (a).

Mr. Phleger stated that the Department of State preferred alternative 1 (a) and felt that exceptional cases in which lower interest rates are indicated ought to be handled as they arise. Secretary Weeks also favored alternative 1 (a), and added that Export-Import Bank and International Bank rates should be equal. Mr. Martin joined in supporting alternative 1 (a) and felt that, on the whole, it is better to make downward rather than upward exceptions if necessary. There was general agreement that the rates of the Export-Import and International Banks should be approximately equal except in unusual cases.

The Chairman then proposed that the Council adopt alternative 1 (a) with the understanding that exceptional cases in which lower interest rates were indicated would be treated as they arose, and that the Council also adopt paragraphs 2 and 3 of the recommended action. The proposal was adopted unanimously. General Edgerton, referring to paragraph 2 of the action, called attention to the last sentence, which expressly recognizes one kind of special circumstance that sometimes arises with Export-Import Bank loans.

Action: The following action was taken (Action No. 615):

1. The National Advisory Council advises the Export-Import Bank that the appropriate interest rate for loans of more than two years maturity to foreign governments or guaranteed by foreign governments or central banks should be 2 percent above the current yield (actual or computed) of U.S. Government securities of comparable terminal maturities (leading to a rate of approximately 5 percent on 20 year loans under present circumstances). Loans not guaranteed by governments should continue to be made at rates at least ½ to 1 percent above the rates applicable to government loans.

2. The National Advisory Council advises the Export-Import Bank that the appropriate rate on cotton and other short-term

credits repayable in less than two years should be 3.5 percent for the current year and that subsequently the rate should be approximately the average rate on short-term loans to business by banks in the United States as computed by the Board of Governors of the Federal Reserve System. If, however, it should appear that a rate so determined would discourage U.S. exports or imports, the matter should be presented to the Council for consideration.

3. The National Advisory Council advises all other agencies of the Government that the pattern of rates set by them on foreign loans and other foreign credits should conform to the foregoing standards.

Mr. Anderson referred to page 2, paragraph 6, of the paper, concerning the continuation of a differential of ½ to 1 percent on loans made to private entities without government guarantee. He stated his understanding that this paragraph was not intended to fix a rigid spread between guaranteed and unguaranteed loans. Rather, he understood that in the case of unguaranteed loans to private entities, the differential from the guaranteed loan rate might be higher and would be based on the credit standing of the borrower. The Chairman said that it ought to cost more to borrow from the Government than from private sources, so that there would be a penalty on borrowing from the Government. Mr. Burgess observed that the differential noted in the paper between guaranteed and unguaranteed loans should be regarded as a floor, and that in some cases the differential might be much higher than 1 percent.

[Here follows discussion relating to a statement of the Council's activities January 20–May 14, 1953.]

NAC files, lot 60 D 137, "Documents"

Memorandum Prepared in the Export-Import Bank of Washington[1]

RESTRICTED [WASHINGTON,] June 10, 1953.

Document No. 1466 (Revised)

Export-Import Bank Memorandum—Basic Policy Governing the Extension of Eximbank Credits

In a recent discussion at a Staff Committee meeting of the National Advisory Council, the representative of the Department of Commerce suggested that it would be helpful to the Staff Commit-

[1] An earlier version of this memorandum, dated May 29, 1953, was transmitted to the members of the NAC on June 5 as Document No. 1466. That draft was revised by the Export-Import Bank following NAC Staff Committee discussion on June 8, and recirculated to the NAC under cover of a memorandum by the Council's Secretary, dated June 10, 1953, not printed.

tee if the Export-Import Bank would furnish a brief statement of its policy in regard to the financing of U.S. exports. This memorandum is submitted in response to that request.

As stated in the Act of Congress,[2] the purpose of the Export-Import Bank is "to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its territories or insular possessions and any foreign country or the agencies or nationals thereof." Every loan made by the Export-Import Bank is made for the purpose of facilitating the foreign trade of the United States. With only minor exceptions, all of the approximately $4 billion disbursed as loans by the Bank since 1934 have been expended in the United States for manufactured products, commodities or services of United States manufacturers, agriculturalists, and suppliers.

The questions to be considered at all times are:

What is the real problem confronting the foreign trade of the United States?

How can the Export-Import Bank best assist in meeting that problem?

To all who have analyzed this situation it is obvious that this country is not concerned primarily with the ability of the United States exporters to make sales of United States goods, except, perhaps, in special instances like surplus agricultural commodities. The real problem is the ability of the foreign countries to pay for these goods—to obtain enough dollars to buy as much from the United States as they desire. Generally since the first World War, the United States, as a creditor country with the greatest production capacity ever known in the world and with more than the average supply of natural resources basic to a strong economy, has exported more than it has imported. For many years the difference was made up principally through the shipment of gold until the United States had accumulated most of the world's monetary gold stores. During and since the last war the difference has been met through gifts of one form or another or through dollar credits.

From the earliest days of the Bank it was recognized by the management that the alleviation of our trade problems does not lie in the mere extension of credit. We can solve nothing merely by inducing the rest of the world to expand "installment buying." What is bought today on credit must be paid for tomorrow. If the equipment which is purchased abroad does not lead to increases in productive capacity of the borrowing country, the "trade base" for the future has not been expanded. The management of the Export-

[2] Reference is to the Export-Import Bank Act of 1945 (Public Law 173), approved July 31, 1945; for text, see 59 Stat. 526.

Import Bank is, therefore, following the policy of financing exports on a selective rather than on an overall basis. That is to say, it has restricted its assistance generally to the financing of those products of U.S. origin which will increase the productive capacity of the foreign country receiving them. In certain instances where the foreign country is suffering from a persistent and chronic dollar shortage an additional test may be necessary; that is, that the equipment should enable the foreign country to earn or save dollars. Even in this instance the dollar earning or saving effect need not be direct—it is sufficient that incorporation of such items into the economy of the country indirectly improves its foreign exchange position.

It might be pointed out that the problem of the United States in foreign trade is just the opposite of the problem of Great Britain. It is the constant problem of Great Britain to sell enough abroad to earn the foreign exchange with which to purchase the food, raw materials, and even certain manufactured products required to maintain its island economy. The more that Britain can sell on credit the stronger is the British trade and economy. Great Britain's problem is to sell enough abroad. Our problem is to get paid for what we sell. There would be no end to the credit which the Export-Import Bank would have the opportunity to extend nor to the number of orders which United States exporters could write were the Export-Import Bank to abandon the policy of careful "selective" financing of exports in favor of making public credit easily available to all exporters who might find it possible to increase their sales by the extension of credit terms to their foreign customers.

The idea of "selective" financing of exports is not based on any premise or implication that it is more important to the United States to export one type of article than another. The manufacture and sale of gadgets and so-called luxury items is as important to the overall economy of the United States as the manufacture of capital equipment and the production of food and raw materials. If, however, the limited public funds available for such purpose through the Export-Import Bank are used to finance the export of that type of equipment which will increase basic productive facilities, the foreign country eventually will be able to buy not only capital equipment, but also the many other items that go to make up a higher standard of living. For example, the Export-Import Bank might be prepared to finance the sale of ore cars or freight cars to a particular country, but not prepared to finance the export of the latest passenger car equipment to the same country. If the ore or freight cars are used to transport to the seaboard products and minerals required in the United States then the country will

create wealth not only to pay for those industrial purpose cars, but also sufficient to purchase such passenger equipment as it may need over the coming years. If, however, we should use up the credit of the other country through the sale of the latest type club cars and sleepers, the result is obvious, and can hardly be justified by the desire of the United States exporter to make the particular sale.

There can be no hard and fast rule. Basic economic conditions in the world change rapidly. The dollar problem harassing world trade today may be less severe tomorrow. Many countries have always been exceptions to any chronic and persistent dollar shortage rule. Equipment which serves a productive purpose in one country may not serve such a purpose in another. Equipment which would be only a luxury in one country may become a necessity to the economic life and productive capacity of another community. The management of the Export-Import Bank is convinced that its financing must be such as to improve trade between the United States and foreign countries rather than merely to make next year's sale a year early.

Nor should the rule be applied with absolute rigidity. Certain United States producers and manufacturers are constantly dependent upon foreign markets to maintain operations. Our cotton and wheat growers consistently have an exportable surplus. Manufacturers of such items as machine tools, farm implements, and textile machinery depend upon foreign markets for the sale of from 30% to 50% of their annual production. From the standpoint of the importing country such products and equipment often supply a legitimate economic need even though they may not represent a first priority capital development.

In these instances in which the particular foreign order is of more than ordinary importance to the United States suppliers, or serves some more general important U.S. interest, the Bank takes such considerations into account, although it is still required that importation of the product or item serve a useful economic purpose and lay no undue burden upon the exchange position of the importing country.

In carrying out these principles the Bank has extended loans generally of the following types:

(1) The Bank has participated with United States suppliers and exporters in the financing of a particular order for goods of a productive character. By participation we mean that the Bank has agreed to carry anywhere from 50% to 90% of the credit extended to the foreign purchaser—either private or public—without recourse to the United States supplier, who will himself carry the remaining portion of the credit on his own or with the assistance of

his commercial bank. Such credits are necessary to fill the void existing in private capital markets for the financing of foreign trade. They serve to place American exporters on an equal footing with the exporters of those foreign countries whose governments have taken steps through export credit insurance or similar devices, to fill this gap in private credit facilities. The sale of heavy capital equipment generally creates a future market for the supplier in the form of spare parts, replacements, and additions. By requesting the supplier to participate, the Bank is assured that the order is one of importance to the supplier, that the supplier has been careful in selecting a foreign purchaser who is credit worthy and that the supplier continues to be interested in the successful operation of his product during the period that the foreign purchaser is making payment.

(2) The Export-Import Bank has consistently financed the exportation of cotton and other agricultural commodities and certain types of equipment and machinery produced in the United States which are dependent upon foreign markets and which are important to the continued economic life of the foreign country.

(3) The Bank has extended credits to United States companies, to private interests abroad and to Governments abroad to assist in financing high priority investment projects which will improve the basic productive capacity of the importing country.Of most direct benefit to foreign trade is the financing of the development of minerals and other strategic materials and commodities which are required in the United States and will find a ready market in dollars. For example, a group of strategic material credits authorized in Latin America during the past 2 years will require loans of less than $100 million, but will result eventually in earnings to the countries concerned of approximately $50 million per year, all of which may be used for the purchase of United States products, after the repayment of the loans. Of more indirect, but equally important benefit has been the financing of roads, harbors, electric power installations, irrigation projects and a few basic and secondary industries. It is only after a country has been opened up by the presence of such basic installations that its resources can be brought into world trade and private investors can be induced to establish new businesses and industries. Again it should be pointed out that credits made available abroad to finance such projects are made for the purpose of meeting dollar requirements of such projects, i.e., the funds are available for the acquisition of the equipment and services which are to be purchased in the United States. There are few United States suppliers and manufacturers, large or small, that have not benefited through the sale of material of one type or another, as the result of credits of this type heretofore extended by the Export-Import Bank. Such sales were made without the necessity of the United States exporter incurring any credit risk abroad and in many cases without his knowledge that the sale resulted from Export-Import Bank financing.

(4) The Bank has extended credits in special circumstances to meet temporary exchange situations which constitute an impediment to continued United States foreign trade. The recent $300 million credit authorized in favor of the Bank of Brazil was of this

nature. Also the Bank in 1952 made an advance to the Republic of France against the assignment of the proceeds of military orders placed in France by the Defense Department of the United States, thus making exchange available to France for the continued importation of raw materials and equipment from the United States.

(5) The Bank has also extended credits the main purpose of which has been to further political objectives of the U.S. Government. In no such instance, however, can the Bank overlook the requirements of its legislation and policies that the loan be economically justifiable and conducive to sound international trade.

All of the foregoing is subject to the policy of the Bank—expressed in its Act as the policy of the Congress—that the Bank in the exercise of its functions would supplement and encourage and not compete with private capital, and that loans so far as possible consistent with carrying out the purposes of the Act, shall generally be for specific purposes and in the judgment of the Board of Directors offer reasonable assurance of repayment.

In addition to making the finding with respect to reasonable assurance of repayment, the management of the Bank must reach a conclusion that private financing is not available for the accomplishment of the purposes before a credit is approved. Numerous requests which would otherwise qualify for loans from the Bank have been rejected for the reason that the utilization of public funds for the purpose could not be justified.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 200th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, June 15, 1953

CONFIDENTIAL

Mr. Andrew N. Overby (Acting Chairman), Treasury Department
Mr. William L. Hebbard
Mr. Elting Arnold
Mr. Henry J. Bittermann
Mr. George Bronz

Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett
Mr. J. J. Stenger

Mr. Samuel W. Anderson, Commerce Department
Mr. Clarence I. Blau

Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
Mr. Lewis N. Dembitz

Mr. Walter C. Sauer, Export-Import Bank
Mr. Melville E. Locker, Mutual Security Agency
Mr. George L. Artamonoff
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. R. E. Short, Agriculture Department, Visitor
Mr. Oscar S. Zaglits, Agriculture Department, Visitor
Mr. James W. Howe, Bureau of the Budget, Visitor
Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)
Mr. Sidney B. Wachtel (NAC Secretariat)

[Here follows a table of contents.]

1 and 2. *Export-Import Bank Memorandum: "Basic Policy Governing the Extension of Export-Import Bank Credits" and Proposed Export-Import Bank Credits for Textile Machinery Exports*

Mr. Willis stated that the Staff Committee had considered the proposed textile machinery credits and had asked the Export-Import Bank for a general paper describing its policies with respect to exporter credits prior to consideration of the specific textile machinery loans. Subsequently the Export-Import Bank paper (NAC Document No. 1466[1]) was discussed in the Staff Committee and then revised by the Bank. The revised paper, now before the Council, covers not only exporter credits but also the general lending policy of the Bank. In the Staff Committee discussion, Mr. Willis continued, emphasis was placed upon applying the same criteria to exporter credits as to other types of loans. Thus, the balance-of-payments position of the recipient country, its capacity to repay, and the contribution of the loan to its economic development should all be considered in connection with both exporter credits and development loans. Mr. Willis noted that the paper points out the unique position of the United States with respect to foreign lending and observed that one special factor in the textile machinery loans is the domestic situation of the exporting firms. These companies have suffered reduced markets and some degree of unemployment, and are therefore concerned with maintaining sales abroad. He added that the Staff had recommended discussion of the general policy paper and the textile machinery loans at the same time. Mr. Willis concluded by outlining the nature of the loan proposals, emphasizing the significance of an appropriate interest rate (NAC Documents Nos. 1458, 1460 and 1473[2]).

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[1] Document No. 1466 (Revised) is printed *supra*.

[2] The reference documents concern applications by the Whitin Machine Works for exporter credits to enable it to finance the sale of textile machinery to private firms in Brazil. (NAC files, lot 60 D 137, "Documents")

In response to a request from the Chairman, Mr. Sauer amplified some aspects of the general paper and the loan proposals. He called particular attention to the section of the general paper relating to the dependence of certain U.S. producers and manufacturers on foreign markets, and explained that the paper was broader in scope than that requested by the Staff Committee, since the Bank wished to raise with the Council some of the general policy questions of concern to the Bank. He informed the Council that the two Whitin Company loans were first proposed to the Bank last fall, when various companies presented to the Bank an account of falling sales and the view that a large potential market existed in Brazil for textile machinery if financing were available. The Bank had suggested that the companies obtain specific orders for textile machinery and then reapply. The companies returned in April at the time the Bank was involved in extending the $300 million credit to Brazil. After considering various proposals, the Bank decided to submit the Whitin credits to the Council, emphasizing (1) the need of the company for the orders, (2) the economic need for textile machinery in Brazil, and (3) the favorable long-run prospects for Brazil. Mr. Sauer concluded by saying that the Bank was convinced there was no domestic financing available to the Whitin Company, that the company did not possess sufficient resources to finance the sales itself, and that if these loans were not forthcoming, Brazil would probably obtain the machinery from other sources.

Mr. Anderson commented that the paper is clear and concise, and pointedly raises the policy issues which are of interest. He felt that the Council must carefully consider the basic policy issues involved in exporter credits. Commerce favored the two Whitin loans and considered them justified in the light of the Bank policies stated in the paper, but wished to point out that such loans involve dollar aid supplementary to the well-developed programs of the International Bank and to our own foreign aid program. He noted that other industrial countries assist their exporters to obtain medium-term credits of this sort, and thought that the NAC should examine the proposal that the U.S. consider making funds available for such exporter credits. He added that he had no information on the magnitude of such funds in other countries.

Mr. Sauer told of another pending exporter credit, for the sale of aircraft in Brazil, involving the desire of the aircraft company to keep U.S. aircraft in the Brazilian civilian market and to keep in operation its production lines for civilian aircraft. He indicated that approval of the Whitin cases would be a precedent for submitting the aircraft loans to the Council.

Mr. Waugh agreed with Mr. Anderson that the policy problem must be studied, especially in view of the desire of the United

States to promote private investment abroad. He favored granting the Whitin credits pending completion of an overall study but was not convinced that it would be wise to segregate a particular sum for exporter credits. Mr. Anderson called attention to a widely held view that the Export-Import Bank should lend for purposes such as basic development projects in which private investors are not interested. Mr. Overby agreed, saying that the point is frequently made that the Government should stay out of direct competition with private investment and should restrict its activities to projects such as sanitation, port development and the like.

Mr. Marget observed that he was disturbed by the concept of exporter credits and felt strongly that two major points need to be settled in the development of a policy toward them: (1) A careful definition of the area to be covered by these credits must be established. This would involve a deliberate finding that a given American industry is in need of this kind of assistance. (2) In view of the fact that exporter credits are in fact credits to the recipient country, we must examine the question of lending to that country just as in the case of other loans. This would mean in each case a positive finding that United States lending to that country is appropriate.

Mr. Locker felt that the main point of interest to MSA was the problem of tied loans,[3] which he felt should be considered in any examination of Export-Import Bank lending policy. MSA felt that loans should be made by the established lending agencies, but that the Export-Import Bank policy on tied loans leaves a gap in the area of lending possibilities. He concluded that despite the statement in the Export-Import Bank paper that the situation of the recipient country had to be examined, the Council should allow for cases in which overriding reasons may exist for making a loan without regard to the situation of the recipient country.

Mr. Waugh felt that if this kind of credit is appropriate for the Bank, the only problem in the Whitin cases is the condition of Brazil. Mr. Sauer explained that the Bank has made a fairly large number of exporter credits in the past but that since the war the amounts have been dwarfed by the much larger amounts of reconstruction and development loans. Mr. Marget inquired whether the Bank would not welcome some protective procedure which might help the Bank in dealing with pressure groups. Mr. Southard noted that the Bank's procedure is selective and that the Bank has been able to resist pressure in specific cases. He added that in many such cases the Department of Commerce could help the Bank.

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[3] "Tied loans" are loans with a requirement that the recipient use the proceeds to purchase goods and services from the country making the loan.

Mr. Short expressed his opinion that in foreign lending the feasibility of industrial development and the question of proper balance between industry and agriculture in the borrowing countries need to be carefully weighed, as well as the contribution of the borrowing industry to the economy. From this point of view he could see no objection to the Whitin loans, especially since the Brazilian textile industry is not now self-contained.

Mr. Overby indicated that these loans might be closer to the basic functions of the Bank than a number of recent Export-Import Bank loans. Mr. Sauer agreed that this historically is true. Mr. Overby shared Mr. Marget's concern over the ultimate outcome of the exporter credit proposals.

The discussion of the general policy paper continued for some time. Among additional points noted were the fiscal effect in the United States of a large program of exporter credits and the fact that the paper does not deal with some aspects of the broad problem of foreign lending. In concluding the discussion the Council took formal note of the paper and agreed that further consideration would be desirable both by the Staff Committee and the Council. It was agreed accordingly that this subject would be placed on the Council agenda for reexamination at a later date.

In response to a question by the Chairman as to the availability of private capital to the Whitin Company, Mr. Sauer stated that the Bank was convinced that private capital for these sales is not available at a reasonable interest rate, and that there is no source of funds in the United States for this kind of credit. It was agreed that approval of the two loans would not be considered a precedent for a general policy of exporter credits, and that until a further study of the general policy problem is completed further exporter credits would not be desirable. The question of an appropriate interest rate was discussed and agreement was reached on 6 percent.

Action: The following action was taken (Action No. 621):

The National Advisory Council approves consideration by the Export-Import Bank of two credits to finance the export of textile machinery to Brazil, one of approximately $595,000 for the export of machinery to S.A. Industrias Reunidas F. Matarazzo of Sao Paulo, and the other of approximately $255,000 for the export of machinery to S.A. Industrias Votorantim of Sao Paulo. It is understood that the applicant, the Whitin Machine Works of Whitinsville, Massachusetts, is prepared to participate in the financing to the extent of 15 percent of the purchase price and that the credits would be evidenced by the obligations of the purchasers. It is further understood that the credits would have a final maturity of 5 years from the date of shipment and that the interest rate would be 6 percent.

[Here follows discussion of a proposed Export-Import Bank loan to the Marcona Mining Company in Peru, postponement of the capital subscriptions of China and Czechoslovakia to the IBRD, and basic materials loans.]

NAC files, lot 60 D 137, "Documents"

Memorandum by the Staff Committee of the National Advisory Council on International Monetary and Financial Problems to the Council[1]

RESTRICTED [WASHINGTON,] July 2, 1953.

Document No. 1487

Subject: U.S. Position on IMF Paper on Adequacy of Monetary Reserves[2]

Problem

To develop a U.S. position on the agenda item for the sixteenth session of ECOSOC which relates to the IMF study entitled *The Adequacy of Monetary Reserves.*

Recommendations

1. The U.S. Delegation should leave to the representatives of the IMF the main burden of explaining or defending the study. However, the Delegation should concur in a proposal to take note of it and to express to the Fund ECOSOC's appreciation and thanks.

2. Should it appear appropriate, the Delegation might wish to comment as follows:

a) Agree with the Fund that monetary reserves are meant to cover deficits of a country which alternates between temporary deficit and surplus positions, but is in overall balance during the course of an "economic cycle" (presumably, a period of intermediate length of approximately 2–5 years).

b) Agree further that a country can be expected to maintain reserves to cover all such temporary deficits, except perhaps those that arise from a depression abroad. In that event, a country in overall balance, but with insufficient reserves to cover deficits attributable to a foreign depression among other causes, might appropriately seek temporary assistance from the IMF.

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[1] Transmitted to the members of the NAC under cover of a memorandum by Glendinning, dated July 2, 1953, not printed. This memorandum was cleared by the NAC Staff Committee at its meeting of July 2, 1953.

[2] The reference paper was drafted in the IMF in April 1953. After revision in the IMF Executive Board in May, it was transmitted to the UN-ECOSOC in June (U.N. Document E/2454) for discussion at the Sixteenth Session of ECOSOC, held in Geneva, June 30–Aug. 5, 1953. Subsequently, a further revised version of the paper was issued by the IMF in October 1953; for text, see IMF, *Staff Papers* (Washington, 1954), vol. III, pp. 181–227.

c) Accept the view that in the case of deficits experienced by a country with a basic, and not merely a temporary, imbalance the concept of adequate reserves is irrelevant. Reserves cannot ordinarily be expected to cover deficits of this type, since no amount would ever be adequate here. Instead, the country concerned should attempt to bring the imbalance under control through a proper combination of internal and external policies.

d) Emphasize the necessity for countries that accumulate reserves to guard against relaxing their anti-inflationary efforts, or pursuing policies by which instability would be intensified.

3. If the disproportionately large reserves held by the U.S. and certain other countries are made the subject of critical remarks, the Delegation might draw for its rebuttal on the section in the IMF study (pages 13–14) which explains the basic reasons for this skewed distribution.

Discussion

In general, reserves should be used only to meet deficits in a country's balance of payments that are temporary and followed by surpluses of like magnitude. Reserves used for deficits that are not temporary and reversible will of course face the threat of being exhausted. Ordinarily, drafts on reserves are thus appropriate for a country whose external accounts are at least balanced over a period of intermediate length, and whose surplus and deficit phases within the period describe a cycle (or series of cycles) in which the former phases are at least quantitatively equal to the latter.

A country with balanced accounts should aim at meeting all temporary deficits—except perhaps those due to depressions abroad—out of its own reserves. On the average, the reserves a country should hold over an "economic cycle" (a period whose duration is not defined in the IMF paper but might be considered not to exceed 2 to 5 years) would be an amount equal to the average temporary deficits incurred during the cycle, plus some margin for miscalculations and some margin to meet psychological needs. Adequate reserves at any given point *within* a cycle would of course be different. At a point on a cycle's deficit phase, adequate reserves would theoretically equal the expected normal drains throughout the portion of the phase that remained; similarly, at a point on the surplus phase they would equal the accretions to reserves expected during the remainder of this swing, minus the full drain of the next deficit phase of the cycle—with some margin for miscalculations and psychological needs.

In this latter context, adequate reserves, which would vary over time essentially involve an estimate, therefore, of the outlook for future external balance, and the amplitude of fluctuations within that balance, and cannot be precisely measured. Their size would

depend mainly on (1) the seasonal influences affecting the country's balance of payments, (2) the extraordinary influences that may develop, such as crop failures, and (3) the variability of its import prices, and the prices of, and demand for, its exports.

When a country with cyclically balanced accounts is short of reserves in a deficit phase of a cycle, it may appropriately try to make the shortage good by borrowing. It should not, if this can be avoided, impose or intensify restrictions, or pursue deflationary policies to the extent of bringing about severe unemployment.

Reference has been made to the need for a country in external balance to aim at meeting out of its own reserves all temporary deficits except perhaps those due to a foreign depression. A country that endeavored to match its outgo and income over time, taking into account a possible heavy excess of outgo over income stemming from a slump abroad, would find itself accumulating more reserves than it would ordinarily require. For most countries this would be very difficult to accomplish under present circumstances. If and when countries that are otherwise in balance fall short of reserves as a result of a slump abroad, it would accordingly seem appropriate for them to turn to the IMF for assistance (as suggested in the IMF Annual Report for 1952).

Attention might be called to the thought expressed in the IMF paper that for a country in external balance four levels of adequate reserves can be identified, the first three of which, grouped on an ascending scale, would enable the country to maintain restrictions of varying intensity on a parallel descending scale. The implication is that as reserves rise, restrictions can fall.

It is misleading to speak of reserves as governing the level of restrictions unless the argument is properly qualified. High reserves may, of course, permit the relaxation of restrictions but such relaxation can be permanent only when future payments prospects indicate a surplus. Where prospects are merely for balance on the basis of existing restrictions, a relaxation cannot be expected to be permanent unless a country adopts other financial measures to maintain its balance. In general, balance-of-payments restrictions are basically determined by a country's present and prospective trade and payments position, which in turn is a function of its exchange rate, internal financial situation, commercial policy or other considerations that are independent of the level of reserves. In view of the secondary relationship of reserves to restrictions, there would not appear to be a great advantage in dealing with reserves of different magnitudes as being adequate for or consistent with restrictions at different intensities.

Reserves of *two* levels of adequacy might however be distinguished for a country with balanced external accounts—one level

that is adequate to cover even deficits arising from a depression abroad, and one that is adequate only to cover normal deficits arising in the absence of a disturbance of this type.

NAC files, lot 60 D 137, "Documents"

Memorandum by the United States Executive Director of the International Monetary Fund (Southard) to the Secretary of the National Advisory Council on International Monetary and Financial Problems (Glendinning)

RESTRICTED [WASHINGTON,] December 4, 1953.

Document No. 1566

Subject: Review of Policy on Use of Fund Resources

1. By the end of this month the Executive Board of the Fund has to take three decisions: (a) charges on use of resources; (b) procedure for stand-by credit arrangements; (c) renewal of the basic decision on use of resources, dated February 13, 1952.[1]

2. *As to Fund charges:*

(a) I have been endeavoring for a good many months to find some schedule of charges on use of Fund resources which would increase such charges over the present schedule, and at the same time would have reasonable prospect of being an acceptable compromise in the Executive Board of the Fund. The present schedule of charges is very low for the first tranche and in the earlier time periods of the second tranche of the quota (see Attachment II where the existing *effective* rates are shown). Higher charges would more adequately reflect the general level of rates in primary money markets and also would enable the Fund more adequately to pay its way. However, it must be realized that there will be no enthusiasm anywhere in the Executive Board of the Fund, aside from the U.S. Director, for any increase, or at least any substantial increase, in the schedule of charges.

(b) Appended hereto as Attachment I is a proposed new schedule of charges which I believe might have reasonable prospect of being accepted in the Executive Board. It sets 2 percent per annum (effective rate) as the minimum and eliminates the lowest of the four existing schedules of charges. Attachment II compares this proposal with the present effective rates. I recommend that I be authorized to seek the adoption of this new schedule in the Executive Board of the Fund.

3. *As to stand-by credit arrangements:*

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[1] Regarding the IMF's decision of Feb. 13, 1952, see Southard's memorandum, Feb. 11, 1952, p. 308.

(a) The present Fund decision (adopted October 1, 1952) puts a limit of six months on stand-by credit arrangements.[2] As NAC agencies are aware, the United Kingdom and the Continental European members of the Fund (and also others) consider that this period is too short to provide effective stand-by facilities. The United Kingdom Government is particularly insistent that, in the event of a move to convertibility of sterling, a stand-by arrangement will be needed running for not less than 12 months and probably for two years.

(b) The Fund Staff recommends (see SM/53/93 of November 23, distributed to NAC agencies[3]) that the six months limitation be retained, but that appropriate language be added to the new decision to indicate that the Fund would give sympathetic consideration for a longer stand-by arrangement, in the light of the problem facing the member and the measures being taken to deal with it. In my view this is an acceptable modification, possibly with the addition of a phrase to indicate that the cases where a period longer than six months might be needed would arise particularly in connection with positive proposals for convertibility. I recommend that I be authorized to support a revision of the decision on stand-by credit arrangements substantially along the above lines. If the United Kingdom is to go along with this arrangement, it will be necessary for me to assure the U.K. Director[4] that the United States realizes that a six months stand-by arrangement would not be long enough to serve the needs of the United Kingdom at the time of a move to convertibility of sterling, that the United States understands the United Kingdom problem in this respect, and would be prepared to support a stand-by arrangement for the United Kingdom for an appropriate period of time whenever the United States was satisfied that the United Kingdom had an acceptable proposal to make to the Fund.

(c) As to the commitment fee of ¼ of 1 percent per annum on stand-by credit arrangements, the Fund Staff recommends that it *not* be levied with respect to the part of the stand-by arrangement covering gold tranche transactions. The U.K. Director has urged that the charge itself be reduced to ⅛ of 1 percent. I do not favor reducing the charge. However, if the British or others very strongly urge some reduction, I believe we could agree to an arrangement whereby the commitment fee would be credited against the other charges payable to the Fund in proportion to actual drawings made under a given stand-by arrangement. That is, if in a given period a member made a drawing amounting to one-fourth of the total stand-by arrangement, one-fourth of the commitment fee pertaining to that period would be credited against the charges resulting from the drawing. For the subsequent period the stand-by fee would be paid on the unused portion of the stand-by agreement. As to the Staff recommendation that no charge be levied with respect to the portion of the stand-by arrangement covering gold tranche transactions, I think a reasonable case could be made either way

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[2] For a discussion of standby arrangements relating to the IMF's decision of Oct. 1, 1952, see the minutes of the 196th meeting of the NAC, Aug. 26, 1952, p. 313.

[3] The reference document was not found in Department of State files.

[4] Sir Edmund Hall-Patch.

and I would propose to reach an amicable understanding in the Executive Board.

4. *As to the basic Fund decision of February 13, 1952, on the use of Fund resources,* I do not consider that this decision needs revision in any material or substantial way.

5. I should appreciate having a discussion of this memorandum in the NAC Staff as soon as possible.[5]

Attachment I

PROPOSED CHARGES FOR THE USE OF THE FUND'S RESOURCES

Alternative Proposal Three Brackets

Period of use	Variable Charges			Effective Rates		
	0–50	50–75	75–100	0–50	50–75	75–100
0 to 3 months	0.0	0.0	0.0	2.00	2.00	2.00
3 to 6 months	2.0	2.0	2.0	2.00	2.00	2.00
6 months to 1 year	2.0	2.0	2.5	2.00	2.00	2.25
1 to 1½ years	2.0	2.5	3.0	2.00	2.17	2.50
1½ to 2 years	2.5	3.0	3.5*	2.12	2.38	2.75
2 to 2½	3.0	3.5*	4.0	2.30	2.60	3.00
2½ to 3 years	3.5*	4.0	4.5	2.50	2.83	3.25
3 to 3½	4.0	4.5	5.0†	2.71	3.07	3.50
3½ to 4 years	4.5†	5.0†	—	2.94	3.31	—
4 to 4½ years	5.0†	—	—	3.17	—	—

*Point at which consultation becomes obligatory. [Footnote in the source text.]
†Maximum charges; Fund has discretion to make lower charges. [Footnote in the source text.]

[5] The NAC Staff Committee discussed Southard's memorandum at a meeting in December 1953, and recommended approval. (NAC files, lot 60 D 137, "Staff Committee Minutes No. 404") In Action No. 663, the NAC authorized Southard "to support decisions in the Fund on Fund charges, stand-by credit arrangements, and basic policy on use of the Fund's resources along the lines set forth in NAC Document No. 1566." (NAC files, lot 60 D 137, "Actions") The IMF's decision on use of Fund resources, standby arrangements, and charges was announced on Dec. 23, 1953; for text, see IMF, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1954* (Washington, 1954), pp. 131–135.

Attachment II

EFFECTIVE RATES ‡

Time Period	Present				Proposed		
	0–25	25–50	50–75	75–100	0–50	50–75	75–100
0 to 3 months	1.00	2.00	2.50	[6] 3.00	2.00	2.00	2.00
3 to 6 months	—	—	—	—	2.00	2.00	2.00
6 mo. to 1 yr.	1.00	1.75	2.25	2.75	2.00	2.00	2.25
1 to 1½ yrs.	1.17	1.83	2.33	2.83	2.00	2.17	2.50
1½ to 2 yrs.	1.38	2.00	2.50	3.00	2.12	2.38	2.75
2 to 2½ yrs.	1.60	2.20	2.70	3.20	2.30	2.60	3.00
2½ to 3 yrs.	1.83	2.42	2.92	3.42	2.50	2.83	3.25
3 to 3½ yrs.	2.07	2.64	3.14	3.64	2.71	3.07	3 50
3½ to 4 yrs.	2.31	2.88	3.38	—	2.94	3.31	—
4 to 4½ yrs.	2.56	3.11	—	—	3.17	—	—

‡Including ½ of 1 percent service charge. [Footnote in the source text.]
[6] The source text indicates that these first four figures are combined data for the first two entries under "Time Period," i.e., 0 to 6 months.

Eisenhower Library, Randall Commission records, "1953-1954"

Memorandum by John H. Williams of the Commission on Foreign Economic Policy to the Members of the Commission [1]

CONFIDENTIAL [WASHINGTON,] December 15, 1953.

Subject: Currency Convertibility

1. *Convertibility and the Balance of Payments*

There have been two attitudes or schools of thought regarding the restoration of currency convertibility.

(a) One school of thought regards the restoration of convertibility as largely a matter of curbing inflation abroad, through the use of appropriate monetary fiscal policies, and of adjusting exchange rates to appropriate levels. If such steps are taken, it is argued, convertibility would be feasible in the near future. This school of thought regards the war-induced disturbances in production and trade as temporary phenomena which have now been surmounted. All that remains for the introduction of convertibility is appropriate monetary-fiscal and exchange rate policies.

(b) Another school of thought regards the problem as much more complicated than this. While agreeing that the curbing of inflation and the fixing of appropriate exchange rates are essential for con-

[1] For information concerning the Commission on Foreign Economic Policy (Randall Commission), see the editorial note, p. 49.

vertibility, this school argues that such measures may not be enough. It lays emphasis on the structural, longer-run, nature of many of the war-induced distortions in production and trade (especially as they have affected the position of Western Europe). Such distortions include the adverse turn in Europe's terms of trade, the loss of Europe's overseas investments and earnings therefrom, the relative decline in primary production in underdeveloped countries due to their industrialization programs, the disarrangement of the prewar triangular pattern of world trade, and other such relatively "intractable" factors.

This school also emphasizes the growing predominance of the United States in the world economy, already apparent long before the last war, which has intensified the effects abroad of short-run economic fluctuations here, and the longer-run disparities in productivity and real income.

Because of these structural developments, this school of thought takes a more cautious attitude regarding convertibility. It does not deny that the restoration of convertibility is possible, but it believes that the approach to it should be more gradual and experimental until there is reason to believe that the chances of its success are more assured.

2. *Prospects for Convertibility*

The general prospects for convertibility today are better than they have been at any time since the war. Production in Western Europe is now well above prewar levels; Europe's exports have greatly expanded; the internal financial situation in European countries has much improved; the balance of payments of Western Europe with the dollar area has been brought into balance; and monetary reserves abroad are rising.

In interpreting these favorable changes, however, account should be taken of several facts.

(a) The recent closing of the dollar gap has been accompanied by a favorable change in the terms of trade, due largely to the decline of raw material prices from the high level created by the outbreak of the Korean war. This change, however, may be temporary, since before it occurred the terms of trade had been increasingly adverse to Western Europe because of the large growth of world industrial output since prewar and the relatively small growth of primary production, a relation which, looking to the future, appears to be borne out by the findings of the Paley Report.

(b) Owing to direct restriction abroad of dollar imports, the potential demand for dollar goods and services, in a free market and with convertible currency, would probably substantially exceed the present effective demand.

(c) In recent years American imports have been maximized by the high level of American gross national product. Experience has shown that our imports are very sensitive to our level of national

income, and that any recession here has a multiplied effect in reducing foreign exports to this country.

(d) The recent closing of the dollar gap and the increase of monetary reserves abroad (running currently at some two billion dollars a year) has been accompanied by "extraordinary dollar payments" by the United States to other countries of about five billion dollars a year, consisting of disbursements by our military and civilian establishments abroad (and not including our shipments of military goods), off-shore procurement, stockpiling, and economic aid.

Notwithstanding these qualifications, it remains true that conditions abroad have substantially improved and that the prospects for achieving convertibility of currency are now better than at any time since the war. These qualifications, however, together with the other considerations mentioned earlier, lead me to favor a gradual approach, rather than a "dash" for convertibility, such as was favored in some government circles in Britain last year. (I might add that the one British economist outside the government, who was consulted last year by the government, disapproved of the "dash" method, even though he adhered to the more optimistic school of thought to which I referred earlier.) By now, the gradual approach seems clearly to be the generally accepted policy in Britain. It is also generally recognized that the prospects for continued advancement toward sterling convertibility, and for its maintenance once established, would be better the larger the number of countries that currently move toward, or establish, convertibility.

3. *Meanings of Convertibility*

The term convertibility has undergone changes over the years. Under the old gold standard it implied the convertibility of a currency by residents and non-residents into gold, both internally and externally. But no one thinks today any more in terms of convertibility into gold. In current discussions the term has largely come to mean the right of non-residents of a country to convert into any foreign currency their *current* earnings in that country's currency. The term does not necessarily imply the right of non-residents freely to transfer capital out of the country whose currency has become convertible. Nor does it imply the right of residents of that country to export capital freely. On the other hand, if convertibility is to have real meaning, it must be associated with the removal of quantitative trade restrictions, especially those of a discriminatory sort, imposed upon expenditures abroad by residents of the convertible country. It seems to me very doubtful that both of these goals, namely, non-resident convertibility for current transactions and the elimination of discriminatory quantitative trade restrictions imposed on residents, can be achieved simultaneously; a gradualist approach toward *both* goals seems desirable. Since capital

movements by residents and non-residents alike will continue, however, to be controlled for some time to come, the maintenance of an exchange control apparatus will still be necessary even after convertibility and non-discrimination have been restored. In the case of Britain, for example, the *outstanding* sterling balances held by foreign countries cannot be made fully convertible for some time to come in view of the great pressures that such convertibility would impose upon the pound. It should be added, however, that the situation as to these balances is now much better than at the end of the war.

4. *Degree of Convertibility Existing*

Within the sterling area there is already virtually complete interconvertibility of currencies and a virtual absence of quantitative trade restrictions. That is, individuals in the sterling area can freely buy in any other country within the area and freely transfer sterling from one sterling area country to another. Sterling area members are also able to convert their sterling holdings into dollars through the dollar pool arrangements, but the extent to which they do so is limited in actual practice by the quantitative restrictions on imports and payments which the various members, in cooperation with Great Britain, maintain against the United States. Within the European Payments Union, also, there is complete interconvertibility of currencies through the *clearing* facilities provided by the Union and there is also *partial* convertibility into dollars through the dollar *settlement* provisions of the Union. EPU countries maintain discriminatory import restrictions against the United States in the same way as do the members of the sterling area. They have, however, made substantial headway with their trade liberalization program designed to remove discrimination among themselves.

As the OEEC witnesses before our Commission emphasized in Paris, one of the chief lessons from the Payments Union experience is that trade liberalization and currency convertibility go hand in hand, and are mutually dependent. One further point about both the sterling area and the OEEC is that recently their exports have become more competitive with ours in third markets, and that some steps have been taken in both areas towards lessening restrictions on dollar goods. These recent developments should not be exaggerated, but so far as they go, they have a favorable bearing on the feasibility of more general convertibility.

5. *Approaches to Convertibility*

There are various possible ways in which convertibility (and nondiscrimination in trade) can be approached gradually.

(a) One possible method would be through the so-called "commodity convertibility" with which Britain is currently experimenting. That is, non-residents might be permitted increasingly to use their sterling holdings to buy dollar commodities, e.g., non-ferrous metals, on British commodity markets. Since the list of commodities could be gradually enlarged, this would be a way of gradually approaching the goal of full currency convertibility. The advantage of this method is that it permits the country in question to keep a firm hand upon the process of transition toward fuller convertibility and avoids a large and sudden rush by other countries into dollars via sterling, such as occurred in 1947 and would always be a danger so long as a substantial dollar gap exists anywhere in the world.

(b) Another method of gradually approaching convertibility would be for the British to grant the convertibility privilege into dollars to a growing list of countries instead of introducing it to all countries simultaneously.

(c) Another method, which seems to have a considerable amount of support on the continent at the present time, would be gradually to remove quantitative import restrictions against the United States and to introduce convertibility only at a later stage.

(d) Finally, there could be a gradual approach to convertibility within the framework of the European Payments Union itself rather than via a few key currencies such as sterling. Serious doubts, however, exist as to the feasibility of this approach without destroying the Payments Union. The Managing Board of the Union, after having studied the technical problems involved for over a year, have recently been requested by the OEEC Council to study the matter further and report next March. My own view is that it would be desirable to preserve EPU if that can be done without preventing the advance toward convertibility of sterling and other European currencies into dollars, but that since, as the OEEC representatives have always stated, EPU is not an end in itself but only a step toward more general convertibility, the question of its preservation should not be allowed to stand in the way of progress toward more general, world-wide convertibility of the major currencies, particularly sterling.

6. *Floating Exchange Rates*

If sterling and certain other Western European countries become convertible the British and the other countries concerned may want to let their rates "float," for a while at least, rather than to hold them fixed as they are today. In fact, the British Government has stated that it will not undertake any substantial steps toward fuller convertibility except on a basis of floating rates. A floating rate would tend to relieve some of the pressures on reserves that might be associated with the introduction of convertibility. For, if the rate tended to decline, exports would tend to be stimulated and imports to be retarded. It is believed also that, if the rate declined, adverse speculative pressures against the currencies concerned would tend to be discouraged, since speculators would fear the

losses that would result if the floating exchange rate moved up again, or was pushed up by official support. There is a risk, however, that a floating rate might actually accentuate rather than improve the convertible countries' positions by increasing the cost of imports, causing inflationary pressures at home, and creating fears that the rate might continue to drop rather than rise.

As the British have said, they want a "floating" rate and not a "sinking" rate. It is therefore necessary to form a judgment whether the internal economy is strong enough to provide reasonable assurance that inflationary and speculative pressures will not get out of hand. Thus the use of a "floating" rate, though technically desirable in that it provides, as Chancellor Butler said, *two* ways of meeting an external deficit (letting reserves go *or* letting the currency depreciate) again argues for a gradual and controlled approach toward sterling convertibility.

7. *What Might the United States Do?*

A great psychological lift to Western Europe would result if the United States gave its verbal blessing and active encouragement to a move toward convertibility by Britain and some other European countries. On the other hand, it is important that we do not put a date on convertibility, as we did in the case of the pound sterling in 1947. The time schedule for, as well as the method of, restoring convertibility is something that should be decided upon by foreign countries themselves and not by us. Finally, the United States might, at the appropriate time, provide the additional reserves to foreign countries that might be needed to support convertibility of foreign currencies.

8. *The Question of Monetary Reserves and Stabilization Credits*

Despite the recent increase in the monetary reserves of foreign countries, these reserves, and especially those of Great Britain, are much lower, relative to the volume of world trade, than they were before the war. Great Britain has already made it clear that convertibility could not be safely undertaken unless the volume of its reserves is enlarged.

There is a growing insistence that, in order to support a move to convertibility abroad, the gold and dollar resources of the International Monetary Fund, now about 3.3 billion dollars, should be put to much more active use than they have in the past. It is believed, for example, that the Fund could extend a stand-by credit of approximately 2 billion dollars to Great Britain, plus the outer sterling area, to support a move to convertibility. The Fund might also be able to grant small stand-by credits to other countries contemplating convertibility. Attention should be directed to all possible

methods by which the Fund's resources could be put to more active use for this purpose.

The present resources of the Fund, however, would probably be inadequate to satisfy the reserve needs of Great Britain and other countries for a convertibility undertaking. It seems probable, therefore, that *additional* reserve funds might have to be provided if this goal is to be achieved. One possibility would be to enlarge the resources of the Fund itself by an increased contribution from the United States. Another alternative, which would not involve any public debt transaction, would be the granting of stabilization credits to foreign central banks by the Federal Reserve System. Such credits have been granted in the past and might usefully be granted in the future.

Whichever method of supplementing reserves might be decided upon, the basic purpose of stand-by credits and stabilization credits is to strengthen confidence in the currencies becoming convertible and therefore to discourage speculative pressures that might arise and endanger the continued maintenance of convertibility. Stand-by credits and stabilization credits should not be regarded as methods of financing continuing dollar deficits of foreign countries. In fact, if such deficits existed, on any substantial scale, convertibility would in any case not be feasible.

In concluding this statement, I will try to bring together my own ideas. To achieve and maintain full currency convertibility a country should be in a strong economic position, internally and externally. It should have removed direct internal controls and have proved its ability to control its money supply and its budget. Externally, it should have overcome its balance of payments deficit or be far along toward that goal, in order to be reasonably sure that convertibility will assist and not endanger progress toward that objective.

I take the more serious view of the world's dollar problem, namely, that it contains "intractable" elements. The present apparent balance (apart from our military exports) is illusory, in that there are still large "extraordinary" dollar expenditures, the removal of which would reveal a dollar gap of about $3 billion (as against a postwar average of $4 billion) which could easily increase if there were a recession here or if the terms of trade of Western Europe should take an unfavorable turn.

In these circumstances, I think that it would be unwise for us to press the British, or any other country, toward currency convertibility, and that the decision, timing and responsibility should rest entirely on the country concerned. Nevertheless, there has been enough progress, internally and externally, to warrant Britain, and probably some other countries, in taking gradual steps toward cur-

rency convertibility. The most important single step, I believe, is that on which the British seem already embarked—that of gradually removing trade restrictions and reopening commodity markets for dollar goods, and permitting the holders of sterling balances owned by third countries to purchase dollar goods. This is a way of gradually expanding the area of currency convertibility through "commodity" convertibility, which seems to me a much more controllable process than the *general* convertibility that Britain attempted in 1947.

Though I do not favor letting the rate go free to "find its own level," which presents the danger of a vicious circle of inflation, I am sympathetic toward the British desire to have a "floating rate," fluctuating around some norm, and I feel certain that the British would not attempt anything like full convertibility on any other basis. Other points on which I think they would insist, and I think rightly, are controlling capital movements (at least outside the sterling area) and taking effective precautions against runs on the previously accumulated sterling balances, even though the situation as to these balances is now much better than at the end of the war.

One further important question, which however we may feel goes beyond our province, is the effect of sterling (and other European currency) convertibility upon the European Payments Union. The British have apparently withdrawn from their position of a year ago, when they were proposing an escape clause permitting withdrawal from EPU on three months' notice if they decided to make sterling convertible; and as the matter now stands after a year of study by the EPU Managing Board, the Board is requested to report again next March on the question of compatibility of currency (particularly sterling) convertibility and the continued functioning of EPU. My view is that EPU has always been regarded (by its own testimony) as a temporary mechanism with limited objectives—an intra-European multilateral system of trade and payment. But it has achieved an impressive measure of success—above all, it has shown that freeing trade and freeing payment go hand in hand—and we should not sponsor any measures which might wreck it before there is something better to put in its place. This is a problem for the British and the other OEEC countries to thrash out among themselves.

Last and most important, is the question of adequacy of reserves. It must always be borne in mind that sterling is a *key* currency, i.e., a currency used to finance the trade of *third* countries. Even now sterling finances about half of the total trade of the world, and if made convertible it would be exposed to trade, financial and speculative pressures to a far greater extent than other European currencies. This is indeed why, in proper circumstances, we want

sterling to become convertible, in the interests of freer trade and payment in a world-wide multilateral system. But it follows that confidence in sterling must be fully restored, which means, among other things, that Britain's reserves must be greatly strengthened. I have mentioned earlier the International Monetary Fund and some credit arrangement between the Bank of England and the Federal Reserve System as the most likely possibilities.

In conclusion, it is of course clear that currency convertibility must be examined in the light of the policies pursued by other countries, particularly the United States. Thus all the other aspects of our current study—foreign investment, customs, tariff, agricultural policy, etc., have a bearing. As the British have put it, sterling convertibility depends in part on our pursuing "good creditor policies." We might have, as I do myself, a more serious view than other countries might have of the difficulties involved in pursuing such a course. But I think we should see that the view that we do take on all these questions will have an important bearing on the speed, the methods, and the timetable involved in achieving convertibility.[2]

[2] For the Randall Commission's recommendations concerning currency convertibility, see the Commission on Foreign Economic Policy, *Report to the President and the Congress* (Washington, 1954), pp. 72–75.

811.112/12-753

Memorandum of Conversation, by the Special Assistant in the Office of Financial and Development Policy (Robinson)

CONFIDENTIAL [WASHINGTON,] December 7, 1953.

Subject: Treasury's views concerning the taxation of foreign-earned income.

Participants: Mr. Samuel Waugh, Assistant Secretary of State
Mr. Dan T. Smith, Assistant to the Secretary of the Treasury
Mr. Kenneth W. Gemmill, Assistant to the Secretary of the Treasury
Mr. Walter Sauer, Treasury Department
Mr. Jack C. Corbett, OFD; Mr. Hamlin Robinson, OFD
Mr. Charles O. Thompson, ED

This meeting was arranged at Mr. Smith's request to enable him to apprise the Department informally of the Treasury Department's tentative conclusions concerning additional tax measures affecting foreign earned income. He asked that these conclusions be

kept strictly confidential for the time being as the Treasury has not yet taken them up with the House Ways and Means Committee. Mr. Smith indicated that he was under instructions to seek the views of the Departments most directly concerned (Commerce, State, and FOA), and the Randall Commission.

1. Mr. Smith said the Treasury was prepared to recommend that the present benefits available for so-called Western Hemisphere Trade Corporations[1] be applicable to income received from any foreign source, and that the requirements for taxpayers qualifying for such benefits be liberalized. At the present time a special tax rate of 38% (in contrast to the 52% regular rate) is available to domestic corporations receiving 95% of their income from sources within the Western Hemisphere (but outside the U.S.) and 90% of their income from the active conduct of a trade or business. The Treasury's thought is to maintain this 14 point spread (52–38) for all foreign earned income. In addition, changes would be recommended in the source percentages for qualification, and in the requirement for establishing a separate domestic corporation in order to take advantage of the lower rate. In discussing this proposal, Mr. Smith pointed out that it would pretty much amount to a full waiver of taxes on foreign income since the local tax rate in most countries (allowable as a credit against U.S. taxes) is at least as high as 38%.

2. The Treasury also proposes to eliminate the so-called "overall" limitation in computing the credit for foreign taxes paid. Under this limitation all foreign income is treated as a single unit and the tax credit is limited to the amount of the U.S. income tax on the net income from operations in all foreign countries. Thus, losses in one country must first be set off against income from others in calculating the limitation on the amount of the credit.

3. The Treasury proposes to retain the so-called "per-country" limitation, whereby foreign income received from each country must be treated as a separate unit and the credit is limited to the U.S. tax attributable to income from each country. This limitation prevents the taxpayer from crediting the full amount of taxes paid in a country having higher tax rates than the U.S. through an offset with respect to operations in a country with a lower tax rate than the U.S.

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[1] Reference is to the provisions incorporated into the Internal Revenue Code in 1942 extending tax advantages to foreign investment by U.S. firms in the Western Hemisphere. To qualify as a Western Hemisphere Trade Corporation, a domestic firm had to do all of its business, aside from incidentals, in the Western Hemisphere, derive more than 95 percent of its gross income from sources outside the United States, and obtain more than 90 percent of its gross income from the actual conduct of trade or business.

4. The Treasury has had some second thoughts concerning the proposal for postponing the tax on foreign branch income until it is transferred to the U.S. parent—a provision now applicable to income from foreign subsidiary operations. The Treasury feels that branch operations already receive substantial benefits under the tax laws, such as the consolidation of losses with the U.S. parent and the depletion allowances presently available to petroleum and mining enterprises. Since it is precisely this type of enterprise that usually uses the branch form of organization the Treasury now feels that further tax benefits are unwarranted. In short, it questions the desirability and necessity of giving to both branches and subsidiaries the benefits applicable to each. (The next step might be to permit subsidiaries to "bring home" losses as branches can now do through consolidated returns with the parent.)

Mr. Sauer suggested a possible alternative to the unrestricted postponement of the tax on foreign branch income until received by the U.S. parent: namely, the possibility of permitting such postponement only if the foreign branch agreed not to consolidate its losses with the U.S. parent *and* not to take advantage of any depletion allowances otherwise available. Thus, branch income could not claim the cumulative effect of all benefits but could select those most favorable to its particular circumstances. Mr. Smith agreed that this approach had some merit, but required further study and refinement.

There was some discussion of the relative merits of branch and subsidiary forms of organization from the policy point of view. It was suggested that less capitalization is generally required to establish a foreign branch, which has been an important factor in conducting branch banking abroad, for example. Moreover, a foreign branch may have readier access to the U.S. capital market through the established standing of its parent in the U.S. On the other hand, a foreign subsidiary may be more effective in mobilizing local share participation and in developing local securities markets. It was also suggested that perhaps we ought not weight the scales unduly in favor of the branch type of organization and thereby discourage American companies from establishing domestic corporations under local laws abroad and thus becoming identified as domestic organizations within the foreign country. In reply to Mr. Smith's question Mr. Waugh indicated that he thought American companies would be well advised to associate themselves with local interests and to organize with some local participation.

5. Mr. Smith said that the Treasury was thinking of liberalizing the definition of foreign taxes that qualify as a credit against the U.S. tax. Foreign income taxes, and foreign taxes in lieu of an income tax, may now be credited. (All foreign taxes may generally

be deducted from gross income in computing taxable income.) The Treasury would propose allowing a credit for foreign income taxes *or* for any other one tax which constituted the principal tax on business operations. If there were both an income tax and, for example, a turnover tax, the company could elect which to take as a tax credit and which to deduct as an expense from gross income.

6. We asked Mr. Smith how the Treasury felt about the charge frequently made that the existing tax credit procedure limited the flexibility of foreign countries in offering effective tax concessions to new industries contributing to their economic development. He said the Treasury had given considerable thought to this, but that in view of the special treatment of foreign subsidiary income (postponement of tax until dividends repatriated), local tax concessions could be very meaningful, and thus the Treasury thought nothing additional was necessary on this point—particularly in view of proposals in paragraphs 1, 2 and 5 above.

7. Mr. Smith then brought up the general subject of the definition of foreign-earned income, in which the Treasury's views seemed to be much more uncertain. He pointed out that under present practices the Western Hemisphere Trade Corporation provisions have been very beneficial to American export organizations. Since income is considered as accruing where title passes, such organizations need only arrange for the title on exports to pass in the foreign country for the income thereon to be considered as foreign. Mr. Smith felt that the requirements could be so drafted as to eliminate this if desirable, and asked what the Department's views were on this point. We stated that we would, of course, want to explore this with other interested offices in the Department but admitted that our starting point in considering this problem was to encourage local productive operating enterprises abroad rather than U.S. exports as such. We agreed to give this problem some thought and to give Mr. Smith any views we might develop.

8. The meeting concluded with Mr. Waugh's expressing our appreciation to Mr. Smith for giving us the Treasury's tentative conclusions in this important field, and for consulting us concerning them. He noted that the Treasury's views went a long way toward meeting the problem, and stressed again his feeling that the major emphasis in the matter of encouraging foreign investment ought to be on what other countries should do to attract investment rather than on what we should do to push it out—a proposition to which Mr. Smith expressed thorough agreement. Mr. Smith said the Treasury is anxious to consult the House Ways and Means Committee in the very near future, and thus would appreciate receiving our views as soon as possible.

811.112/1-1454

Memorandum by the Special Assistant in the Office of Financial and Development Policy (Robinson) to the Director of That Office (Corbett)

CONFIDENTIAL [WASHINGTON,] January 14, 1954.

Subject: Treasury Foreign Tax Proposals

We had a lengthy and, I think, very fruitful discussion last Friday in Mr. Walter Sauer's office at the Treasury on the proposals being developed for tax changes affecting foreign earned income.* Present from the Department were Messrs. Fred Livesey (OFD), Isaiah Frank (EDT), Charles Thompson (ED), Harlan Bramble (OMP), James Corliss (AR), and myself. Mr. Sauer was joined by Messrs. Nathanial Gordon and Julius Greisman.

I pointed out that in discussing the Treasury's proposals among ourselves certain questions had come up which we wanted to explore further with the Treasury people. Mr. Sauer said they were particularly glad to do so as they were just in the process of preparing a memorandum setting forth the proposals more specifically and analyzing some of their implications and effects. He admitted that events were moving quickly, and while he could not be certain how fluid the thinking was in upper levels at the Treasury he was confident that any views we might have would be given consideration. He seemed uncertain as to whether the specific foreign tax proposals would be included in the budget message stated by the President to be forthcoming on January 21.†

We talked first about the proposal that the Western Hemisphere provisions be left in their present form, and that a similar 14 point preferential rate of taxation be given to the income from subsidiaries actively engaged in a trade or business anywhere abroad, and from branches which elect to be treated as subsidiaries for tax purposes (which would thereby lose their rights to any depletion allowances and to consolidating their income with that of the parent for tax purposes.) We pointed out that this appeared to discriminate in favor of investment in the Western Hemisphere, since a domestic corporation qualifying thereunder could get both the preferential rate and depletion allowances. Mr. Sauer admitted that this was the effect, and that the Treasury had no answer for it. He did point out that the requirements would be much less rigid for firms to

*See memo of conversation in Mr. Waugh's office dated December 7, 1953. [Footnote in the source text; the memorandum is printed *supra*.]

†This has since been confirmed. [Footnote in the source text.]

qualify under the new procedure, which would be available to firms operating in the Western Hemisphere as well as elsewhere (no special domestic subsidiary necessary in order to qualify, for example).

It is apparent that the Treasury feels that any proposal which does away with the Western Hemisphere device, or so alters it as to exclude exporting firms, would be politically unfeasible because of the opposition it would encounter from the exporting interests. Therefore, it will propose preferential treatment for this new category of enterprises. Such treatment would be available only to subsidiaries or branches actively engaged in the conduct of a trade or business within a foreign country. The qualifications would presumably be so drawn as to include firms such as Sears Roebuck which undertake their own retail distribution and develop local sources of supply, and exclude firms which export goods on consignment or who operate only through sales offices or agencies abroad.

It became clear in the discussion that the Treasury's test will be the nature and extent of the service or production performed abroad by the American firm. The mere holding of shares in a foreign firm would not be sufficient to qualify for the preferential tax rate, unless the holding corporation actively participates in the management or operation of the foreign firm. There seemed to be some difference of opinion in the Treasury as to whether a firm would have to draw a line between income derived from the active conduct of a trade or business and investment income, for example, or whether all income would receive preferential treatment if a substantial part thereof was derived from the active conduct of trade or business. Since we are endeavoring to encourage investment as such, we suggested strongly that the Treasury consider extending the preferential rate to income arising from such investment (i.e. net, new corporate investment) regardless of whether the investment is accompanied by the active participation of the American investor. The provision of capital per se is often as vital to economic development as technical and/or managerial skills. Although investments by individuals would not qualify, the individual would merely have to incorporate in order to qualify. Mr. Sauer recognized the validity of our point and agreed to flag it for the attention of Mr. Smith.

We made it clear that we were in agreement with the Treasury's desire to encourage active business operations abroad, i.e. investment, rather than American exports as such. We did point out that additional channels of distribution are sometimes very important in terms of a country's economic development, but agreed that a line had to be drawn somewhere if the principal emphasis was to be on the encouragement of active business operations abroad. I'm

sure the Treasury people understood that we were in agreement with their general approach to the problem, except for the suggested inclusion of investment income and some uneasiness about the difference in treatment between investment in Latin America and in the rest of the world.‡

We then turned to the question of extending the definition of foreign taxes that would qualify as a tax credit. The Treasury is still proposing to permit a credit for foreign income taxes or any other single tax that constitutes the principal tax on business income. We did not take exception to the Treasury's thinking on this point, except for suggesting further flexibility through tax treaties (see below). It was noted that if the principal tax was, for example, an excise tax or a turnover tax the total collected might be unrelated to the firm's taxable income and if credited against the U.S. tax would in many cases result in complete exemption from the U.S. tax.

We then raised the question of still further tax incentives through tax treaties. Mr. Sauer agreed personally that there are two additional areas which should be explored in extending the tax treaty program: (1) additional flexibility in defining the particular foreign taxes that might qualify as a tax credit, and (2) accommodation to situations in which the foreign government offers local tax concessions to new investment, so as to enable American firms to receive the advantage of such concessions. There was little discussion of this notion, but Mr. Sauer indicated that a nudge from the Department in this direction would be quite appropriate. In urging the Treasury to consider doing something along this line we pointed out that, even though legislation might not be required, it would be well for something to be said about it in the forthcoming tax message as such a statement of intent, for example, would be highly useful at the Caracas conference or in some other international forum where we might be pressed on this matter.

We expressed our appreciation for the opportunity of exploring these matters with Mr. Sauer and his associates, and they seemed to feel quite genuinely that they too had benefitted from the discussion. Mr. Sauer undertook to pass our questions and suggestions along to Mr. Smith, and to keep us informed of any further developments.

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‡Mr. Thompson later suggested that the Treasury may well want Congress to deal with this situation, without itself taking the initiative of altering the Western Hemisphere benefits so as to exclude export firms. [Footnote in the source text.]

103 XMB/1-754

The Secretary of the Treasury (Humphrey) to the Secretary of State

WASHINGTON, January 7, 1954.

DEAR FOSTER: In view of the fact that Senator Capehart [1] is starting hearings on the activities of the Export-Import Bank next week, it seems to me wise for the National Advisory Council to have an agreed position on the Export-Import Bank along the line that we have previously discussed.

We ought therefore, I believe, to have an early meeting of the Council, and for your consideration I submit herewith a draft resolution on which I should be glad to have your comments.

I recognize that this does not fully cover the question of political loans which cannot be worked out to meet the test of reasonable assurance of repayment. That is a matter we can discuss further at the meeting. Our suggestion here is that for the present we should continue to use the FOA organization and funds for that purpose and submit to Congress any cases that seem more appropriate, as we did with the grain loans to Pakistan and India.

Sincerely yours,

GEORGE

[Attachment 1]

[WASHINGTON,] January 7, 1954.

ACTION FOR CONSIDERATION OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

1. The Black-Edgerton statement relative to coordination of activities of the Export-Import Bank and the International Bank is approved in principle. (Statement attached)

2. It is the policy of this Government that the Government has no right to exact by taxation from one citizen funds for loans to another citizen for long term development of competitive enterprise. All loans of the Export-Import Bank should be short or medium term in duration, except in unusual cases such as referred to in Paragraph 2 in the attached statement, or in other very exceptional circumstances, and in these cases should be in harmony with the foregoing policy.

[1] Homer E. Capehart (R.-Ind.), Chairman, Banking and Currency Committee.

[Attachment 2]

[WASHINGTON,] September 24, 1953.

STATEMENT OF PRINCIPLES GOVERNING THE UNITED STATES POSITION IN RESPECT TO LOANS BY THE EXPORT-IMPORT BANK OF WASHINGTON AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(Draft by Messrs. Edgerton and Black)

1. The International Bank should be the normal source of loans for development projects involving direct financial obligations of a member government or governmental agency or its guarantee of the obligations of other borrowers.

2. The Export-Import Bank should not make loans within the purview of the International Bank, except in special cases, such as those in which important interests of the United States warrant departure from the general principle, or an additional credit is required to continue the project initially financed by the Export-Import Bank, or a loan is for the development of strategic material for importation into the United States.

3. Loans to private United States businesses or their affiliates, without governmental guarantee, may be considered by the Export-Import Bank on their merits.

4. United States exporter credits in member countries, at the instance of United States suppliers, involving orders for purchase of United States equipment, may be considered by the Export-Import Bank on their merits if they are for such transactions as would not fit into the normal pattern of International Bank project lending. In view of the revolving nature of Export-Import Bank funds, these credits normally should be of short-to-medium-term.

5. Commodity loans to finance the export of United States commodities, short-term in nature, may be considered by the Export-Import Bank on their merits.

6. Loans by the Export-Import Bank in countries which are members of the International Bank should be coordinated with the International Bank's lending program by consultation between the two Banks, and due weight should be given to whether such loans may endanger the repayment of loans made by the International Bank, unduly limit its future lending in the member country or run counter to governmental programs or priorities on which that Bank is planning its lending activities.

7. Loans in countries not members of the International Bank, whether governmental or private, may be considered by the Export-Import Bank on their merits.

Secretary's Letters, lot 56 D 459, "Humphrey, G."

The Secretary of the Treasury (Humphrey) to the Secretary of State

WASHINGTON, January 14, 1954.

DEAR FOSTER: Since writing you with respect to the activities of the Export-Import Bank and the International Bank, I have had a number of conferences concerning the most effective way of using the facilities of the Export-Import Bank. On the basis of these conversations we have revised the memorandum of suggested action for consideration of the NAC, and I enclose herewith a revised draft of it.

I think on this basis of using guaranties, along with a fair equity participation by the borrower, that the Bank can go a good deal further than the first memorandum [1] would seem to suggest, and I think we can use the facilities of the Bank without the need for any legislation.

Sincerely yours,

GEORGE M. HUMPHREY

[Enclosure]

[WASHINGTON,] January 14, 1954.

ACTION FOR CONSIDERATION OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

1. The Black-Edgerton statement relative to coordination of activities of the Export-Import Bank and the International Bank is approved in principle. (Statement attached [2])

2. It is the policy of this Government that the Government has no right to exact by taxation from one citizen funds for loans to another citizen for long term development of competitive enterprise.

Therefore, the Export-Import Bank should use its own funds, which come from taxpayers, as a lever to put to use other money. That means using them for short-term turnover use and for the insurance and guaranty of longer term financing which may qualify under the Black-Edgerton statement.

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[1] Reference is to the memorandum dated Jan. 7, 1954, printed as attachment 1 to Secretary Humphrey's letter of same date, *supra*.

[2] No attachment was found with the source text; the reference statement is printed as attachment 2 to Secretary Humphrey's letter of Jan. 7, 1954, *supra*.

To do this safely requires that applicants for Export-Import Bank guaranties shall have fair amounts of their own money at risk and pay fees adequate for reserve and insurance for losses.[3]

[3] In a letter to Secretary Humphrey, dated Jan. 15, 1954, Secretary Dulles stated that he could not fully concur in this revised draft memorandum, and that since he was soon to depart for Berlin to attend the Foreign Ministers meeting, he had asked Under Secretary Smith to represent the Department of State in a meeting of the interested parties to reach a consensus before the matter was referred to the NAC for final determination. (Secretary's Letters, lot 56 D 459, "Humphrey, G.") No record of such a meeting was found, however, in Department of State files.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 206th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, January 22, 1954

FOR USE OF NAC AGENCIES ONLY

Secretary G. M. Humphrey (Chairman), Treasury Department
Mr. W. Randolph Burgess
Mr. Andrew N. Overby
Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett
Secretary Sinclair Weeks, Commerce Department
Mr. Samuel W. Anderson
Mr. Harold E. Stassen, Foreign Operations Administration
Mr. Ellsworth B. Buck
Mr. William McC. Martin, Jr., Board of Governors, Federal Reserve System
General Glen E. Edgerton, Export-Import Bank
Mr. Eugene R. Black, International Bank
Mr. C. Dillon Glendinning (Secretary)

[Here follows a table of contents.]

1. *Export-Import Bank Lending Policy*

The Council approved the following action (Action No. 673):

"(1) The attached statement[1] relative to coordination of activities of the Export-Import Bank and the International Bank is approved.

"(2) The Export-Import Bank will continue to operate under policies set by the National Advisory Council."

(See page 2 for Attachment.)

[1] The statement is printed as attachment 2 to Secretary Humphrey's letter of Jan. 7, 1954, p. 356; it was approved without change by the NAC.

The Council also advised the Managing Director of the Export-Import Bank that in the financing of exports, the Export-Import Bank should seek the following objectives:

(a) The exporter should carry a share of the financing on his own account and should receive payment of his share not faster than pari passu with other participants.
(b) A share of the financing should, as far as possible, be carried by private financing institutions without Export-Import Bank guarantee.
(c) In financing the remainder of the transaction, the Export-Import Bank may guarantee private loans against loss up to 90 percent of the face of the loan, at the same time charging a rate which would allow for building up a reserve or insurance fund to absorb losses. The guarantee should normally be against loss rather than a repurchase agreement.

NAC files, lot 60 D 137, "Staff Documents"

Position Paper Prepared in the National Advisory Council on International Monetary and Financial Problems[1]

[WASHINGTON,] March 23, 1954.

Staff Document No. 708 (Revised)

POSITION PAPER FOR THE 17TH SESSION OF ECOSOC[2] AND THE IMF EXECUTIVE BOARD, CONCERNING PROPOSALS ON THE USE AND REPLENISHMENT OF IMF RESOURCES

Problem

A report on *Commodity Trade and Economic Development*[3] prepared by a group of experts appointed by the Secretary General of the U.N.[4] concerns itself in part with the use of IMF resources to compensate for declines in international demand resulting from a recession in the main industrial countries. The report is scheduled to be considered at the 17th Session of ECOSOC, but before that by the Fund in formulating its position on it for the ECOSOC session. A U.S. position for use in both instances is outlined below.

The proposals of the experts are: (1) the IMF should declare its intent to use its resources boldly to maintain the international "flow of currency" if a major industrial country is involved in de-

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[1] A covering memorandum by Glendinning, dated Mar. 23, 1954, not printed, transmitting this position paper to the members of the NAC, states that the paper was approved by the NAC Staff Committee on Mar. 22.

[2] Held in New York, Mar. 30–Apr. 30, 1954; for documentation concerning the session, see United Nations, *Official Records of the Economic and Social Council, Seventeenth Session and Annexes* (New York, 1954).

[3] U.N. Document E/2519, published in 1954.

[4] Dag Hammarskjold.

pression, (2) the Fund should declare its intent to seek to increase its resources when these reach a certain minimum level, and (3) the Fund should negotiate with major members to see how far such increases can be pledged in advance.

US Position

1. In connection with consideration by the Fund of the position to be taken by it during ECOSOC discussion of the experts' proposals, the US Executive Director in the Fund may be guided as follows:

(a) The first proposal of the experts envisages a declaration by the Fund which has in fact already been made (see Discussion below). It is understood that the Managing Director of the Fund intends at the ECOSOC to recall these previous statements by the Fund relating to its responsibilities in the event of balance-of-payments difficulties arising because of recession. There would appear to be no objection to having the Fund state a position substantially similar to its previous statements.

(b) As regards the second proposal of the experts, the Fund representative at ECOSOC should go no further than a statement of intent that if the Fund's resources should at some future time appear inadequate for its functions, the matter of increasing its resources will be given proper consideration.

(c) As regards the experts' third suggestion, the US Executive Director may call attention to the provisions of Section 5 of the Bretton Woods Agreements Act,[5] which prohibits any loan to the Fund or action by any officer of the United States to increase the U.S. quota in the Fund without express authorization of Congress. During any discussion of this proposal of the experts, he might state that when an increase in the Fund's resources becomes necessary, the US would be prepared to give the matter "proper consideration". This was the position taken by the U.S. representative[6] during the discussion in ECOSOC in 1952 of recommendations contained in the report of the experts on *Measures for International Economic Stability.*[7]

2. During ECOSOC consideration of the experts' proposals, the U.S. representative at ECOSOC may be guided as follows:

(a) If possible, specific recommendations by ECOSOC to the Fund on the problem of future uses of, or increases in, Fund resources should be avoided. At ECOSOC, the U.S. should seek to hold any resolution on this matter to a recommendation that the Fund give (or continue to give) appropriate attention to the adequacy of its resources.

(b) Statements made by the Fund in the past concerning Fund action to assist its members suffering balance-of-payments difficulties arising out of recession would appear to dispose of the experts'

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[5] Public Law 171, approved July 31, 1945 (59 Stat. 512).

[6] Isador Lubin.

[7] U.N. Document E/2156.

first proposal, and no further elaboration by the Fund of these statements would appear to be necessary.

(c) Should the Fund representative at ECOSOC make a general statement of intent along the lines indicated in paragraph 1(b) above, the US might indicate agreement with the Fund's declaration and should seek to prevent any recommendation by the ECOSOC looking to fund action going beyond such a general declaration.

(d) If appropriate, the US representative should refer to the provisions of the Bretton Woods Agreements Act concerning increases of the US quota in the Fund or US loans to the Fund. He might also recall the statement of the US representative in ECOSOC made in 1952 that, when an increase in the Fund's resources becomes necessary, the US would be prepared to give the matter proper consideration.

3. The U.S. representatives should seek to minimize fears that the current mild decline of economic activity in the U.S. is likely to develop into a severe recession, or that the U.S. will be unable to take any effective remedial action that may be required. They might refer to relevant statements by the President and others, including the Council of Economic Advisers, concerning the readiness of the U.S. Government to act to prevent a substantial recession from getting under way.

Discussion

1. The Managing Director of the Fund, speaking at the 14th Session of ECOSOC,[8] said in part as follows: "The Fund's resources provide a second line of reserves to be used . . . to help members meet balance-of-payments deficits due to a recession or a depression abroad . . . .[9] The Fund is fully aware of its responsibilities to act with determination to assist its members in lessening the balance-of-payments impact of any future depression". This statement had the prior approval of the Fund's Executive Directors.

The Annual Report of the Fund for 1953[10] states (page 32) that "it cannot be hoped . . . that domestic activity in all countries would always proceed without a ripple along a smoothly rising trend . . . . If there is a recession in demand [for exports],[11] it will always be necessary to fall back upon the temporary use of reserves to supplement current export earnings. These reserves may be a country's own reserves, or the reserves held in common by members in the International Monetary Fund. Effective action in

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[8] Held in New York, May 20–Aug. 1, 1952; for documentation concerning the session, see United Nations, *Official Records of the Economic and Social Council, Fourteenth Session* (New York, 1952).

[9] Ellipses throughout in the source text.

[10] IMF, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1953* (Washington, 1953).

[11] Brackets in the source text.

such an emergency is one of the principal purposes for which the Fund was established. One of the Fund's most important functions is to assist its members to mitigate the impact of a sharp decline in their foreign exchange upon their ability to maintain a needed volume of imports and a high level of employment."*

In the light of the foregoing statements, the first proposal of the experts would appear superfluous. The Fund declaration envisaged in the first proposal—to the effect that the Fund intends to use its resources boldly during a slump—is one which the above statements seem to cover explicitly.

2. It may be argued by some countries that the second proposal of the experts—concerning a Fund declaration of intent to replenish its resources when these reach certain minimum levels—follows logically from the general position of the Fund indicated above and should be accepted by the Fund on these grounds. It might be urged that since the statements cited above pledge help to members with balance-of-payments difficulties during a recession abroad, and since there is no evidence that the pledge means the help is to be limited to the use of the Fund's existing resources, the Fund is in fact committed to seek new resources if they should stand at, or fall to, levels at which little or no help is possible when members find themselves in difficult straits.

Such a conclusion should be opposed as unwarranted. The Fund statements cited above are expressions of general policy only. It would be quite unreasonable to interpret them to mean that the Fund would extend help to members during any recession and in any amounts, whatever the surrounding circumstances and amounts involved.

Furthermore, it is clear that any increase in the Fund's resources to be used for the purpose of combatting a possible recession would have to come largely from the U.S., and all the countries represented in the ECOSOC would be fully aware that this is the case. Inasmuch as it is uncertain whether the U.S. Government would be willing to supply additional resources to the IMF for such a purpose, we should be very careful to avoid any statement or action that might be taken to imply a commitment to do so. If we were to support, first in the IMF Executive Board and secondly in the ECOSOC, any declaration of intent by the IMF to seek an increase in its resources when this becomes necessary, we might be held to be implying that when the time came we could be expected to implement the suggestion—a misleading implication.

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*In this connection see also the attached excerpt from the Fund's report to ECOSOC on the adequacy of international monetary reserves. [Footnote in the source text; the excerpt is not printed.]

3. The third of the experts' proposals looks to a negotiation by the Fund with its major members to see how far increases in the Fund's resources can be pledged in advance. During the debate on *Measures for International Economic Stability* at the 14th Session of ECOSOC, the U.S. representative stated that the U.S. would be prepared to give "proper consideration" to the matter of an increase in the resources of the Fund at such time as this becomes necessary. The experts' third proposal might be met by recalling this statement. In this connection, the U.S. representative should note that a U.S. Government commitment to contribute to a future increase in resources is legally impossible. The Bretton Woods Agreements Act specifically enjoins the Executive Branch from committing the U.S. to raise its quota in the Fund, or to lend the Fund money, except after action by Congress. Nor can one Congress assure action by its successors. An affirmative vote on any proposal designed to obtain prior assurances of increased dollar resources for the Fund at some future time is therefore out of the question.

The statement that the Executive Branch cannot commit the United States Government to a further contribution to the Fund's resources may precipitate a proposal aimed at eliciting a pledge by member governments that, should a contribution in fact be requested at some future time, the responsible national authorities (Executive Branch) would recommend appropriate action to this end, in accordance with their established constitutional procedures.

If developments take this course, the U.S. representative might state that future circumstances cannot be foreseen. There is always the possibility that a Fund request to the U.S. in the future for additional resources might be regarded by the Executive Branch as unnecessary or unjustified. In such a situation, the Executive Branch would obviously not wish to be pledged to recommend U.S. help in replenishing the Fund's resources. For the Executive Branch to offer a pledge of this type cannot, therefore, be reasonably expected.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 212th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, July 2, 1954

FOR NAC USE ONLY

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department

Mr. Andrew N. Overby

Mr. Clarence E. Hunter
Mr. W. L. Hebbard
Mr. Henry J. Bittermann
Mr. Philip P. Schaffner
Mr. Charles R. Harley
Mr. Donald W. Curtis

Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett

Mr. Samuel W. Anderson, Commerce Department
Mr. Clarence I. Blau
Mr. Frederick Strauss

Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
Mr. Frank M. Tamagna
Mr. J. Herbert Furth

Mr. John Stambaugh, Foreign Operations Administration
Mr. Warren W. Shearer
Mr. Jacob J. Kaplan
Mr. Jack F. Bennett

Major General Glen E. Edgerton, (Ret.), Export-Import Bank
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. Neil H. Jacoby, Council of Economic Advisers, Visitor
Mr. Clayton E. Whipple, Department of Agriculture, Visitor
Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)

1. *Survey of Convertibility Problems*

The Council discussed this general subject and considered a draft United States position paper[1] on the problems of convertibility for the forthcoming O.E.E.C. Ministerial Meeting. The Acting Chairman indicated that the two principal financial aspects of the proposed United States position were the role of the International Monetary Fund and the proposal for a European Fund, and asked for comments on these matters.

Mr. Southard commented on relationships between the International Monetary Fund and the GATT[2] and between the Fund and the O.E.E.C., and reviewed some of the problems that may be anticipated in the Fund at the time positive steps toward convertibil-

[1] Apparent reference to an earlier version of the position paper designated NAC Document No. 1657, dated July 9, 1954, *infra*. No copy of the earlier draft was found.

[2] Reference is to the General Agreement on Tariffs and Trade, concluded at Geneva, Oct. 30, 1947, and entered into force for the United States, Jan. 1, 1948; for text, see TIAS No. 1700 or 61 Stat. (pts. 5 and 6).

ity are taken. He felt that as a permanent organization with an adequate staff, the Fund is in a position to respond to additional needs for coordination with respect to the GATT. With respect to O.E.E.C. he pointed out that the Fund has a representative in Paris for liaison with O.E.E.C., and that if more effective relationships are desired, this could be worked out. Among the anticipated problems, he mentioned the apparent restiveness on the part of the United Kingdom with the present system of weighted voting in the Fund and the desire of the United Kingdom to find a way of dealing with the extreme creditor problem. He felt that paragraph 6 of the paper presented an adequate United States position on the extreme creditor question and that the United States should not favor any arrangement which would result in automatic sanctions against itself.

Mr. Hunter reviewed the salient points of discussions in Europe on the question of the proposed European Fund. He pointed out that the European Payments Union has been useful and that the Europeans did not wish to abandon it without adequate replacement, since even after some currencies are made convertible, there will probably be some countries which will have inconvertible currencies for some time and which may need assistance. It was felt that a European Fund could help the weak countries through loans out of the $271 million of EPU assets which will be available upon dissolution of EPU. Loans to such countries would probably be nonautomatic. He recalled that the United States has the right of veto over the ultimate disposition of the assets of EPU upon its liquidation, and he therefore expected the Europeans to present a plan for United States review and approval.

Mr. Shearer noted that there was general agreement that credits from a European Fund should be on an *ad hoc* basis, but that there was a wide range of views as to which countries would be eligible for aid and under what conditions the *ad hoc* loans would be appropriate.

There was further discussion of the European Fund proposal and general agreement that such a fund would be managed by the Council of the O.E.E.C. At the conclusion of the discussion, Mr. Burgess commented that in view of the United States veto over the disposition of EPU assets, it seemed clear that the United States would be asked to approve some plan for a European Fund. Therefore, he felt that the United States Government should be prepared to comment on the proposal. He suggested that additional work on the idea of the European Fund should be undertaken by the NAC Staff Committee and that the revised position paper should be submitted to the Council at a later date. The Council agreed to this procedure. (The Staff Committee subsequently presented NAC Doc-

ument No. 1657 for the consideration of the Council, and the Council approved the document in a telephone poll completed on July 12, 1954 (NAC Action No. 709[3]).)

[Here follows discussion concerning the proposed International Finance Corporation.]

[3] Not printed. (NAC files, lot 60 D 137, "Actions")

NAC files, lot 60 D 137, "Documents"

Position Paper Prepared in the National Advisory Council on International Monetary and Financial Problems[1]

FOR NAC USE ONLY
Document No. 1657

[WASHINGTON,] July 9, 1954.

U.S. POSITION FOR OEEC MINISTERIAL MEETING ON PROBLEMS OF CONVERTIBILITY

1. U.S. recognizes the importance of OEEC as an effective forum for coordinating work on international trade and payments of European member countries and their internal economic policies, particularly during the impending transition to currency convertibility and liberalization of imports on a global basis. It appreciates the desirability of preserving and strengthening the real gains which trade liberalization has brought for the OEEC countries and attaches importance in this connection to the willingness which this homogeneous group of countries have previously demonstrated in this forum to abide by quite rigid trade rules and to submit internal policies to continuous and intensive multilateral review.

2. Closer liaison should be maintained with the IMF and GATT, including greater participation as appropriate of IMF and GATT representatives in the work of the OEEC in the trade and payments field. Approaches to the IMF for drawings or stand-by arrangements should be made by member countries and not by OEEC as such.

3. The OEEC should undertake a firm commitment to establish global trade liberalization programs for member countries to be approved at its next Ministerial Meeting this coming fall. These programs should involve (a) immediate steps for moving ahead toward full intra-European and dollar liberalization as rapidly as balance of payments positions permit and (b) provisions for the control of deliberalization if subsequent developments require.

[1] Transmitted to the members of the NAC under cover of a memorandum by the NAC Staff Committee, dated July 9, 1954, not printed.

These programs should not be spelled out in detail in this meeting. However, the OEEC rules should provide, subject to appropriate escape clauses, a general policy of non-discrimination as between currency areas in new measures of liberalization or deliberalization following a general move toward convertibility. The OEEC rules should also seek progressive elimination of existing discrimination by increasing liberalization toward the dollar area without impairment of existing intra-European liberalization. These rules could well call for the elimination of discrimination by convertible countries within a reasonable period of time, and in the case of the inconvertible countries, could involve a reduction in trade barriers and a reduction in discrimination looking toward the introduction of full convertibility as rapidly as feasible. In formulating and operating the escape clauses referred to above, full consideration would be given to the effect of the new rules on the balance of payments of OEEC countries, on progress toward higher levels of trade and on the integration of Europe.

The program should be harmonized with existing member commitments to the GATT, should not prejudice GATT discussions re organization and trade rules and should be reexamined automatically in the light of new agreements as they are reached in the GATT. The programs should not preclude the stronger countries from moving more rapidly toward liberalization and non-discrimination nor should they prejudice arrangements which may be made in connection with drawings and stand-by arrangements from the IMF.

4. A European Fund should be set up under OEEC auspices through the use of the convertible capital assets of the EPU remaining at the time of liquidation in order to facilitate adequate temporary financing for liberalization programs of member countries. The U.S. would welcome contributions by the stronger European countries of additional financial and credit facilities on a multilateral basis to assist the weaker countries to maintain liberalized trading arrangements.

5. The work of the IMF and GATT and that of the OEEC in this field will necessarily be closely coordinated. This must be accomplished primarily through effective coordination of the positions taken in each forum by the individual countries concerned, nearly all of whom do participate in all three organizations. In this field the U.S. will, of course, continue to associate itself closely with the OEEC, as it has in the past, and to provide full support and cooperation on problems of common interest. The U.S. preliminary inclination, as expressed in instructions for the Alternates Meeting, was not to favor additional international organizations but rather improve working arrangements and coordination among interna-

tional organizations now dealing with these relations. Coordination might be further facilitated by improving and strengthening the administrative machinery of the GATT, and improvement of the procedure for consultation between the IMF and GATT. (Additional statement illustrating improved procedures in preparation.)

6. The suggestion that additional provisions be made for the treatment of countries in extreme creditor positions is one of great concern to the U.S. We believe that this topic is adequately covered by existing provisions in the Articles of Agreement of the International Monetary Fund.

7. While the OEEC should not undertake to sponsor tariff negotiations, the OEEC may appropriately discuss tariff problems incidental to other OEEC activities, and we welcome such tariff reductions by individual countries as may result from such discussions. The function of sponsoring tariff negotiations should be left to the GATT. In any case the U.S. would not wish to see *any* departure from the global or most-favored-nation principle with respect to tariffs by introducing a preferential system which does not now exist.

8. Furthermore, the U.S. believes that most determined efforts should be made by the OEEC to avoid bilateral arrangements either within the OEEC or with non-member countries. It is believed that bilateralism constitutes a most serious threat of breaking down progress which has been made in a freer system of trade and payments both globally and within the OEEC area.

9. The special problems of continued implementation of the Code by countries unable to return immediately to convertibility will need further examination by the OEEC: but it should be pointed out that steady and persistent debtor positions will need to be dealt with through proper policies in debtor countries (including exchange rate adjustment).

[Appendix 2][1]

Procedures for Improving Co-ordination Between the GATT and the Fund

1. The GATT Contracting Parties would establish in Washington a permanent Standing Committee, the functions of which would be both to conduct consultations under the GATT and to be available on a continuous basis for consultation on matters of common interest to the GATT and Fund. This Committee would be composed in

[1] Appendix 1, concerning the establishment of a European Fund, is not printed.

the same way that working parties are now normally established by the GATT. It would consist of the principal trading countries in the GATT, which would have permanent membership, and of other countries which would have temporary membership on a rotating basis. Any Contracting Party not represented on the Committee at the time a particular case arose in which it was directly interested, would be permitted to sit on the Committee in an observer's status for that case. In order to service the Committee with necessary trade information, the Committee would have a staff established in Washington, this staff constituting a branch office of the GATT Secretariat.

2. The Standing Committee in Washington might be authorized by the GATT Contracting Parties to act on their behalf, subject to appeal by any country in disagreement to whatever superior body is provided for by the renegotiated agreement.

3. There would be established a Joint Staff Committee drawn from the regular international staffs of the GATT and the IMF, the branch office of the GATT Secretariat in Washington providing the GATT staff for this purpose. The function of this Committee would be to prepare co-ordinated reports for the IMF Managing Board and the GATT Standing Committee on problems of restrictions. The reports would be prepared at the initiative of either the IMF Board or the GATT Standing Committee. While not every case would need to be the subject of a report by the Joint Staff Committee, the usual procedure would be for this Committee to prepare a report prior to consideration by the IMF Board and by the GATT Standing Committee.

4. The IMF Board and the GATT Standing Committee, as appropriate under the Fund and GATT Agreements, would act promptly upon cases covered in the Joint Staff Committee reports. In the consideration of all such cases, representatives of the GATT would sit with the IMF Board, and the IMF would be represented at meetings of the Standing Committee.

Editorial Note

Discussion at the 214th meeting of the National Advisory Council on International Monetary and Financial Problems, held at Washington, September 22, 1954, concerned the lending policy of the Export-Import Bank, with particular reference to Latin America. For text of the minutes of that meeting, see volume IV, page 250.

NAC files, lot 60 D 137, "Documents"

Memorandum by the Foreign Operations Administration to the National Advisory Council on International Monetary and Financial Problems [1]

FOR NAC USE ONLY [WASHINGTON,] October 8, 1954.

Document No. 1690

Subject: FOA Loan Program for Fiscal Year 1955

Section 505 of the Mutual Security Act of 1954 [2] provides:

"(a) Assistance under this Act may be furnished on a grant basis or on such terms, including cash, credit, or other terms of repayment (including repayment in foreign currencies or by transfer to the United States of materials required for stockpiling or other purposes) as may be determined to be best suited to the achievement of the purposes of this Act.

"(b) Of the funds made available pursuant to this Act and foreign currencies accruing to the United States under section 402 (relating to sale of surplus agricultural commodities), the equivalent of not less than $200,000,000 shall be available only for the furnishing of assistance on terms of repayment. Funds for the purpose of furnishing assistance on terms of repayment shall be allocated to the Export-Import Bank of Washington . . . . Amounts received in repayment of principal and interest on any loan made under this section shall be held by the Treasury to be used for such purposes, including further loans, as may be authorized from time to time by Congress . . ." [3]

Section 201, relating to Development Assistance, provides:

"Such assistance may be furnished on such terms and conditions as the President may specify, except that 30 per centum (i.e. $55.35 million) of the funds appropriated pursuant to this subsection (i.e. $184.5 million) shall be available only for furnishing assistance on terms of repayment in accordance with section 505."

Section 501, relating to transferability of funds, provides:

"Of any funds transferred under this section for the purpose of furnishing assistance under section 201, 30 per centum shall be available only for furnishing assistance on terms of repayment in accordance with section 505."

In accordance with these legislative requirements and with the Loan-Grant Policy which was discussed in the National Advisory Council on June 1, 1954, and was agreed by the Cabinet on June 4, 1954, the Foreign Operations Administration submits for National Advisory consideration the following program for fiscal year 1955:

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[1] A covering sheet containing a draft NAC action is not printed.

[2] Public Law 665, approved Aug. 26, 1954; for text, see 68 Stat. 832.

[3] Ellipses in the source text.

Loans under the authority of the Mutual Security Act of 1954 will be made on terms not more lenient to the borrowing government than those described below. Loans will provide for the repayment within fifty years. Interest will begin to accrue not later than the beginning of the fourth year. Payment in full of accrued interest will begin not later than the middle of the fourth year. Repayments of principal will begin not later than the beginning of the fifth year. The applicable rate of interest will be not less than 3% if interest and amortization payments to the U.S. Government are to be in dollars and not less than 4% if the payments are to be in the currency of the borrowing government. Payments of interest and repayments of principal will be made semiannually. If the combined interest and amortization payments are to be made in ascending amounts the increase will be steady throughout the entire period of the payments. (The maximum rate of progression would then be such as to require an initial combined payment of $15,000, a semiannual increase of $136.92, and a final payment of $27,734, on a $1 million loan at 3% for 50 years.)

Loans on terms less lenient to the borrower may be made when in the opinion of FOA such loans can be made without sacrificing important U.S. objectives in the Mutual Security Program.

The choice between payments to the U.S. Government in dollars and payments in local currency will be made by a borrowing government and incorporated in the loan agreement at the time of signature. At any time during the life of a loan agreement providing for local currency repayment the borrowing government will have the right to transfer irrevocably from the local currency basis of repayment to the dollar basis of repayment.

If repayment is to be in local currency the obligation to repay will be denominated in dollars with provision for payment in the local currency equivalent of those dollars at the appropriate exchange rate current at the time of repayment. Each borrowing government will be required to agree that local currency paid to the U.S. under a loan agreement will be usable at a minimum for any expenditures or payments of the U.S. Government in the country or overseas territories of the borrowing government and that any restrictions placed by the borrowing government upon other uses of the local currency paid to the U.S. Government will not be more onerous than the restrictions limiting the use of the local currency by U.S. citizens.

The U.S. will agree to take into consideration the economic position of the borrowing country in any contemplated use of the local currency repaid by a borrowing country.

Loan agreements will allow the borrowers the option of prepayment.

Loan agreements will take note of the possibility that the U.S. may wish at a later date to suggest renegotiation of the agreements to provide for direct repayment in strategic materials or other valuable considerations, and each agreement will generally provide that, if, at any time so long as the U.S. Government is the holder of the obligations under the agreement, the parties to the agreement determine that it would be in their common interests they may by mutual agreement, modify the agreement.

Each loan agreement will provide that the U.S., in consultation with the borrowing government, may convert the dollar obligations it holds under the agreement into negotiable bonds in convenient denominations for sales to investors.

Loans will be offered in the following approximate amounts:

Development Assistance Loans ($ and $ equivalents millions)	
India	45
Iran	32
Egypt	15
Israel	15
Total	107
Defense Support Loans	
Pakistan	38
Turkey	20
Greece	10
Berlin	25
Yugoslavia	16
Spain	40
Total	149
Military Assistance Loans	
(These loans are to be allocated among countries after further discussion with the Department of Defense, priority being given to loans to the Latin American countries. The loans will be for the purchase of military equipment in furtherance of the grant and reimbursable military assistance programs. The terms of the loans and their allocation among countries will be submitted for National Advisory Council consideration at a later date.)	50
Grand Total	306

Significant variations in any of the provisions of the loan program outlined above will be submitted for advance consideration by the National Advisory Council. Arrangements will be made by the Foreign Operations Administration with the Export-Import Bank for administration of the loans in accordance with the Mutual Security Act of 1954.

NAC files, lot 60 D 137, "Minutes"

Minutes of the 216th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, October 11, 1954

FOR NAC USE ONLY

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
Mr. Andrew N. Overby
Mr. Elting Arnold
Mr. Henry J. Bittermann
Mr. John O. Hally

Mr. Samuel C. Waugh, State Department
Mr. William V. Turnage
Mr. Hamlin Robinson

Mr. Clarence I. Blau, Commerce Department
Mr. Frederick Strauss

Mr. Lewis N. Dembitz, Board of Governors, Federal Reserve System

Gen. Glen E. Edgerton, Export-Import Bank

Mr. Edward B. Hall, Foreign Operations Administration
Mr. E. N. Holmgreen
Mr. Jack F. Bennett
Mr. Robert B. Black
Mr. Richard Lippincott
Mr. Francis Mahon
Mr. George W. Rothschild

Mr. John S. Hooker, International Bank

Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. E. C. Hutchinson, Bureau of the Budget, Visitor
Mr. Earl L. Butz, Department of Agriculture, Visitor
Mr. William G. Lodwick, Department of Agriculture, Visitor
Mr. Oscar S. Zaglits, Department of Agriculture, Visitor
Col. James K. Wilson, Jr., Department of Defense, Visitor
Mr. George C. Denney, Jr., Department of Defense, Visitor

Mr. George H. Willis (Acting Secretary)
Mr. C. L. Callander (NAC Secretariat)

FOA Loan Program

The Council met to consider the FOA loan program for the fiscal year 1955 under Public Law 665,[1] as outlined in NAC Document No. 1690.[2] Mr. Burgess indicated that it might also be appropriate

[1] Mutual Security Act of 1954.
[2] *Supra.*

to make some comments on the loan program under Public Law 480.[3] Mr. Hall stated that FOA had nothing further to add to the paper. Mr. Burgess commented that the proposed program raised questions with respect to (1) the term of the loans and the rate of interest to be charged, (2) the renegotiation formula, (3) the allocation of loan amounts by countries, and (4) continuing NAC review of the program. He asked for discussion of these issues. Mr. Brundage stated that two questions which were of interest to the Bureau of the Budget were the problem of choice of loans rather than grants and the uses to which the U.S. Government would be able to put local currency proceeds.

Mr. Overby indicated that the Treasury Department would like to see the interest rate set at the nearest ½ percent above the cost of money to the U.S. Government for comparable maturities. On this basis the proposed rates of 3 and 4 percent would be acceptable for the time being, but he felt that they should be subject to review. With respect to the maximum term of the loans, Mr. Overby preferred 30 years to 50. Mr. Hall felt that it was better for the U.S. to be lenient on the terms rather than on other aspects of the loans, and pointed out that a 50-year term would help to minimize possible conflicts with repayment schedules of Export-Import Bank and International Bank loans. Mr. Waugh argued in favor of longer rather than shorter terms. A discussion ensued in which various aspects of the interest rates and the term of the loans were explored thoroughly. Following this discussion the Council agreed to approve for the time being the 3 and 4 percent minimum rates for loans repayable in dollars and local currencies, respectively, and to accept the FOA proposal to make the loans repayable in not more than 50 years, with the expectation that FOA would renegotiate the loans before the end of the 50-year period whenever conditions made renegotiation appropriate.

The Council then discussed the formula for renegotiation. General Edgerton expressed the view that there was need in a 50-year loan for a provision for renegotiation in case conditions change. It was suggested that it would be desirable to make definite provision for renegotiation in the loan contracts, and that this could be accomplished by writing the loans with a 25-year term with the identical repayment schedule proposed by FOA for 50-year loans, making the balance unpaid at the end of 25 years due and payable at that time, subject to renegotiation. It was argued that this would provide a positive incentive for renegotiation at a stated time. These suggestions and other possible means of handling the ques-

[3] Reference is to the Agricultural Trade Development and Assistance Act of 1954, approved July 10, 1954; for text, see 68 Stat. 454.

tion of renegotiation were discussed at length. The Council agreed at the conclusion of this discussion that the general formula for renegotiation stated in paragraph 4 on page 3 of Document No. 1690 was an acceptable formula and need not be changed.

Mr. Overby requested clarification of the language in paragraph 1 on page 3, relating to restrictions on the purposes for which the United States Government might use local currency, pointing out that such language might provide an incentive for borrowing governments to impose or increase restrictions on the use of local currency by private citizens. Mr. Willis pointed out that the language might alternatively be interpreted as making the loans very hard in the event convertibility is achieved. Mr. Bennett indicated that the language was intended to mean simply that U.S. Government holdings of local currency would not be subjected to discriminatory restrictions in the event of convertibility for other foreign balances. After discussion, it was agreed that more general language, such as that proposed by Mr. Dembitz at the meeting, should be substituted for the language in the paper.

The Council then considered the problem of allocating the loan amounts by countries. The statutory requirement of making loans of $200 million and the Congressional desire for a higher figure if possible were explained to the Council. Mr. Waugh stated that the Department of State had not had an opportunity as yet to examine the proposed area and country amounts and wished to have time to do so. He appreciated the desire of FOA to begin operations promptly under the program and he felt that State would be able to make its view known quickly so as to avoid delay. It was agreed, after some discussion, that the Council would approve the suggested program for development assistance and defense-support loans, subject to FOA's reviewing the individual country programs in consultation with the Department of State, and that the program for military assistance loans would be submitted to the Council at a later date. It was agreed that any significant variations in the program or in the amounts proposed for particular countries would be referred back to the NAC. The representative of the Bureau of the Budget stated that the Bureau had an interest in the country allocations, and intended to make the allocations subject to the usual apportionment procedure of the Bureau of the Budget.

The Chairman suggested, as a means for providing continuing NAC review of the program, the FOA keep the Council informed of the progress under the program so that Council agencies would have opportunity to request discussion or raise objection if they felt it necessary.

Col. Wilson offered substitute language for a portion of the text describing the military assistance loan program (p. 4), which was

accepted by the Council. Certain minor changes to the paper were agreed. The Council directed the Secretariat to revise the paper in accordance with the discussion (see NAC Document No. 1691[4]).

The Council then took the following action (NAC Action No. 730):

"The National Advisory Council informs the Director of Foreign Operations that it offers no objection to the Mutual Security Loan Program for the Fiscal Year 1955 as stated in NAC Document No. 1691, with the following understandings:

1. That the program for Military Assistance loans will be submitted for Council consideration at a later date.
2. That the FOA will refer to the Council for advance consideration any significant variations in the approved loan program or in the amounts allocated to particular countries.
3. That the FOA will keep the Council informed on developments under the loan program."

[Here follow brief discussion of loans versus grants in the program under Public Law 480 and a related attachment.]

[4] Not printed. (NAC files, lot 60 D 137, "Documents")

NAC files, lot 60 D 137, "Documents"

The Managing Director of the Export-Import Bank (Arey) to the Secretary of the National Advisory Council on International Monetary and Financial Problems (Glendinning)[1]

FOR NAC USE ONLY — WASHINGTON, November 2, 1954.
Document No. 1700

DEAR MR. GLENDINNING: The recent shift in international trade conditions from a seller's to a buyer's market abroad, the increasing importance of export markets to United States manufacturers because of expansion of plant capacity, and the increasing credit competition offered by foreign manufacturers based on assistance provided by their governments, make it desirable for the Export-Import Bank to adopt procedures to expedite the extension of assistance to United States exporters of capital goods without sacrificing sound principals of finance.

Accordingly, the Bank proposes, within the field in which it could appropriately extend exporter credits on a case by case basis, also to extend lines of credit to assist exporters of certain types of capital equipment to meet competition in established United States markets abroad. This proposal rests upon the premise that certain

[1] A covering sheet containing a draft NAC action and a transmittal memorandum by Glendinning are not printed.

types of capital goods will be required year after year in a particular country, will improve or continue to sustain the economy of that country and, based upon past experience, can be sold there for dollars in a certain volume each year without injury to our overall trade position. Such a procedure would not minimize the importance of or be inconsistent with consideration on their merits of either projects of a developmental type or exporter credits for the expansion of exports as distinct from their maintenance at appropriate levels.

Such a line of credit would not be expected to finance more than a portion of the business of a particular exporter of capital equipment. The establishment of such a line for his assistance, however, would enable the exporter to know the extent of the aid he might anticipate from the Bank in a given period and thus permit him rationally to plan the extension where necessary of credit terms to his foreign dealers or other customers. Moreover, the line of credit from the Bank could be arranged and used more effectively to supplement and complement the exporters' own resources and his lines of credit from commercial institutions.

The contemplated procedure is not entirely new to the Bank. Somewhat similar lines of credit have been extended to assist groups of manufacturers in the machine tool industry. These revolving credits have operated successfully and without loss. The creation of such groups, however, is not practicable or appropriate for most types of equipment.

The Bank proposes, in short, to authorize a line of credit to assist an individual company in an amount of not more than one-third to approximately one-half of the average foreign business done by it during the last few years. At the outset, no line would be authorized in excess of $10 million, or would be available for more than one year, until some experience with this device has been gained.

After such authorization, application could be made to the Bank by the exporter for financial assistance under the line in making a sale in any friendly country on a case by case basis. Where the nature of the goods permits of repetitive sales to the same customer abroad during a year, provision would be made for utilization of the line without prior approval by the Bank of each such transaction. For these cases the Bank will designate from time to time the countries in which such transactions may be financed automatically, and the amount of credit which may be outstanding at any one time in each approved country. As a further prerequisite to such transactions, the Bank also will designate from time to time the amount of credit which may be outstanding at any one time to an approved importer in that country. The provisions for such auto-

matic treatment, however, are not to apply to sales where the purchaser is a government or government owned entity.

In connection with each sale to be financed under an exporter credit line, a down payment of at least 20% of the invoice value must be obtained by the exporter unless otherwise approved by the Bank. The exporter will be expected generally to participate in the financing by carrying not less than 25% of the balance or financed portion of the sale. The Bank, then, will purchase or guarantee not more than 75% of the financed portion. This financing would be without recourse to the exporter and would be pari passu with the 25% or more which he would carry for his own account or with the assistance of his commercial bank or other financial institution. On this basis the amount to be financed by the Bank would not exceed 60% of the invoice value of the item sold.

The maturity of the paper to be purchased or guaranteed would vary according to the nature of the equipment to be financed and to some extent with the competitive terms offered. It is believed the terms should not exceed and usually should be shorter than those offered by competitors, but seldom should be for periods of less than 1 year. For some types of equipment terms of 2 or 3 years will be adequate. For others, terms of about 5 years may be required, and for large units of heavy equipment there will be occasions when terms of 7 years or so will be necessary. The desire to extend excessive terms will be minimized, it is believed, because the exporter will be required to participate ratably for the full period. It should generally be possible to finance through private channels products for which credit terms of less than one year are appropriate.

The paper to be purchased or guaranteed usually will bear interest at not less than 5% per annum. There may be some instances, however, in which approved sales to governments or their entities may require use of 4½% as the rate of interest. Interest will at least equal minimum requirements of the NAC formula. Interest and installments of principal are to be payable not less often than semiannually.

The Bank proposes to charge a commission on all obligations purchased or guaranteed by it. The commission, payable by the exporter when the Bank assumes responsibility for the paper, will be 1½% flat on obligations having a final maturity of 3 years or less, and will be increased by ¼% for each year or portion thereof by which the maturity of the last maturing obligation exceeds 3 years.

Some exporters have indicated that they can provide the financing required for the sales which are to be assisted if the Bank will extend its guaranty to the exporter in lieu of arranging for purchase of the paper. In the majority of cases, however, it is the in-

tention that these purchases shall be made by commercial banks designated by the exporter with the guarantee of the Export-Import Bank. Accordingly, it will be necessary to enter into guaranty agreements with these commercial banks. The Export-Import Bank proposes to charge for its guaranty, whether issued to the exporter or to the commercial bank, a fee of 2% per annum on the outstanding balance guaranteed if the obligation bears interest at the rate of 5% per annum or less. The guaranty fee will be increased by one-quarter of any amount by which the interest borne by the guaranteed obligation exceeds 5% per annum. The fee would be payable to the Bank from interest collected on the guaranteed obligation.

The exporter is to be responsible for determining that all requirements incident to the right to obtain dollar exchange to meet installments on the importer's obligations have been complied with by himself or the importer. If this has not been done, the Bank will have recourse against the exporter in connection with the particular transaction.

A few exporters are prepared to assume all commercial risks involved in their sales abroad on credit, but have indicated that if they are to do so they require protection against loss resulting from political occurrences beyond the control of the exporter or the importer. Such risks include inconvertibility, war and, possibly in some cases, expropriation. The Bank, therefore, proposes to offer limited guaranties which would vary from those for total coverage under lines of credit as discussed above in the following respects: (1) Instead of purchasing or guaranteeing the paper in the first instance, the Bank will agree to make such purchase within 180 days after occurence of a default resulting solely from a defined political risk; (2) the Bank's undertaking would cover 75% of the financed portion of the sale after provision for a cash down payment of 20% of the invoice value; (3) the commission charged the exporter by the Bank at the time of assuming responsibility would be ¾% of the obligations covered by the Bank's undertaking for obligations having a final maturity of 3 years or less, plus ¼% for each year or fraction thereof by which the maturity of the last maturing obligation exceeds 3 years; and (4) the Bank will receive a premium of 1¾% per annum payable at least semiannually if the obligations of the importer bear interest at the rate of 5% per annum, plus one-quarter of any amount of interest in excess of 5% borne by the obligations.

There is transmitted herewith a memorandum[2] describing in greater detail the proposal to establish lines of credit in favor of

[2] The reference memorandum, prepared in the Export-Import Bank, dated Aug. 12, 1954, is not printed.

individual exporters of capital goods. If the National Advisory Council perceives no objection to the program as described, the Bank is presently prepared to consider authorization of lines of credit as follows:

1) A line of $4 million to assist The Oliver Corporation in the sale of agricultural equipment. This company has had a foreign business in excess of $15 million per year over the past 5 years, the average having been about $18.5 million. Provision may be made for the automatic use of this line within limits based upon the average (or minimum in some cases) of sales in a particular country during the past 5 years. Automatic use of the line, however, will not be permitted in countries presently faced with a serious dollar exchange problem. Any sales in such countries will require prior approval of the Bank.

2) A line of $6 million to assist Combustion Engineering, Inc. in the sale of steam boilers and associated equipment. The individual transactions generally involve large amounts. Automatic use of this line is not envisaged and accordingly each transaction will require prior approval of the Bank. The average annual foreign business of the company has been $10.5 million.

The Export-Import Bank requests the National Advisory Council to advise the Bank whether the Council perceives any objection to the consideration by the Bank of applications for lines of credit to assist United States exporters to finance the sale of capital goods of a productive nature on the terms described above.

Sincerely yours,

HAWTHORNE AREY

NAC files, lot 60 D 137, "Minutes"

Minutes of the 219th Meeting of the National Advisory Council on International Monetary and Financial Problems, Held at Washington, November 5, 1954

FOR NAC USE ONLY

Mr. W. Randolph Burgess (Acting Chairman), Treasury Department
Mr. Andrew N. Overby
Mr. George H. Willis
Mr. Elting Arnold
Mr. Henry J. Bittermann

Mr. Samuel C. Waugh, State Department
Mr. Jack C. Corbett

Mr. Samuel W. Anderson, Commerce Department
Mr. Frederick Strauss

Mr. Arthur W. Marget, Board of Governors, Federal Reserve System
Mr. Lewis N. Dembitz
Mr. Lynn U. Stambaugh, Export-Import Bank
Mr. Hawthorne Arey
Mr. Raymond L. Jones
Mr. R. Henry Rowntree
Mr. Edward B. Hall, Foreign Operations Administration
Mr. Frank A. Southard, Jr., International Monetary Fund
Mr. John S. Hooker, International Bank
Mr. Percival F. Brundage, Bureau of the Budget, Visitor
Mr. E. C. Hutchinson, Bureau of the Budget, Visitor
Mr. W. G. Lodwick, Department of Agriculture, Visitor
Mr. Oscar S. Zaglits, Department of Agriculture, Visitor
Mr. C. Dillon Glendinning (Secretary)
Mr. C. L. Callander (NAC Secretariat)
Mr. Sidney B. Wachtel (NAC Secretariat)

1. *Export-Import Bank Proposal for Exporter Lines of Credit*

The Council considered NAC Document No. 1700,[1] containing an Export-Import Bank proposal for a program of exporter lines of credit. The Chairman invited the representative of the Export-Import Bank to explain the program. Mr. Arey commented that in many respects the program is not new, pointing out that the Bank had made exporter credits for many years and has had experience with lines of credit in certain fields. He felt that the really new thing about the program is the advance assurance it would offer to the exporter of access to the Bank's resources under specified conditions. He described the features of the automatic and non-automatic lines of credit contemplated in the plan, and indicated that a significant advantage of this approach is in the possession by the Bank of comprehensive knowledge of the exporter's business, which should expedite actual operations under the lines of credit. He noted that an exporter newly entering the field would be treated on a case-by-case basis until he built up a record which might enable him to obtain a line of credit. He outlined the minimum standards for down payments and exporter participation under lines of credit, and discussed the interest rate and commitment charge provisions which the Bank contemplated. He described the safeguards which the Bank has worked out to insure that particular firms are not unduly assisted to the injury of others and discussed briefly the two illustrative cases outlined in the paper.

Mr. Overby raised the question of the extent to which this program would compete with private groups in the same field. Mr.

[1] *Supra.*

Arey replied that the Bank has discussed the program with the Chase National Bank group which is preparing to enter the medium-term export financing field and felt that there would be no conflict between the two plans. Mr. Marget recalled that the Federal Reserve Board had recently altered its regulations to enable the Chase group to organize a corporation for this purpose. He therefore hoped that the Export-Import Bank plan would not offer any undue competition to the private venture. He hoped that to the extent private groups became able to handle export financing, the Export-Import Bank would withdraw from the field, and he noted that this would imply constant scrutiny by the Eximbank of its own operations to be sure that it was not competing with private capital. Thus, for example, Eximbank would have to watch its interest rates in comparison with the rates charged by private groups. Mr. Arey replied that he was sure that the Chase group was satisfied that the Eximbank plan would not hinder them, and noted that the Eximbank always desires to encourage private lending. He indicated that the terms to be offered by the Chase group seemed relatively advantageous to the exporter as compared to the terms contemplated by the Eximbank. The Eximbank feels that it must direct its financing toward the sale of goods that will improve U.S. markets abroad. Therefore, the Eximbank program would be limited to financing capital goods which would tend to improve the economies of the importing countries even though they may not necessarily result in immediate production of dollar exchange. He felt that the Chase group might limit its transactions in the same way. He noted that the problem of the United Kingdom is quite different from the problem of the United States, in that the U.K. wishes to promote sales of consumer goods to obtain immediate earnings of foreign exchange for Britain.

Mr. Marget expressed the hope the monthly reports by the Bank to the NAC would include data on transactions in particular countries. Mr. Arey replied that the Bank contemplated reporting amounts allocated to particular companies and also amounts allocated and disbursed in particular countries. The Bank did not intend, however, to report allocations or disbursements by country for each company, nor to publish a list of countries which would be eligible for lines of credit. The Chairman noted the importance to the NAC of watching the position of particular countries.

Mr. Waugh stated that the plan seemed acceptable to the State Department, but he wished that the Council had more time to consider it. Mr. Arey indicated that he appreciated the time problem of the Council. He noted that the Staff Committee had spent nearly a whole day on the plan and that the Bank was not urging NAC action in undue haste. The Bank hoped for Council decision by No-

vember 8 or 9 to enable them to announce the plan to the press by about November 11, after talks with the two companies whose applications were ready for approval.

Mr. Burgess stated that the Eximbank should make clear in its press release that no conflict was intended with the Chase and other private groups in this field and should emphasize the intention of the Bank to promote the use of private capital. Mr. Overby thought it should be made clear that the Eximbank is willing to withdraw from the field to the extent that private firms are prepared to enter it. He wondered whether this kind of proposal might at some point relieve the desirable pressure on commercial banks to enter the field of financing foreign trade. Mr. Southard suggested that a few years of favorable experience by the Eximbank might pave the way for the entry of commercial banks into the field. Mr. Arey felt that the principal deterrent to commercial banks was the transfer problem rather than the credit problem, and that if the Eximbank assumes the transfer risks the commercial banks may be willing to handle the credit risks. Mr. Anderson agreed with Mr. Overby's view that the Eximbank should be willing to withdraw to the extent that private firms were willing to enter the field. He felt that the Chase Bank plan offered more attractive points than the Export-Import Bank plan, and hoped that the success of the Chase group would cause other private firms to enter the field.

Mr. Marget called attention to the significance of the institutional change in the structure of American banking heralded by the Chase venture. Mr. Waugh felt that the present time is a period of transition in U.S. banking, with U.S. banks gradually entering the foreign field. He felt that this plan would inevitably encourage U.S. exports and therefore increase our trade imbalance and felt that the plan should not yet be considered a finished product. Mr. Arey indicated that in developing the plan the Eximbank was careful to preserve the principle of selectivity in financing, and hoped that the plan would offset pressures for blanket export insurance.

Mr. Hall raised the question of the relationship of the guarantee aspects of the plan to the FOA guarantees. Mr. Arey replied that all FOA guarantees concern equity investments rather than loans and that the Eximbank did not anticipate any conflict with the FOA program. Mr. Hall hoped that the Bank and FOA would maintain a close relationship on these programs.

Mr. Brundage expressed approval of the limitations and safeguards in the plan, especially its limitation to the financing of capital goods, and the intention to defer to commercial banks.

Mr. Overby stated that the program must be viewed as experimental with the promotion of private enterprise in mind, that it should be kept in line with other U.S. policies in the foreign eco-

nomic field, and that it should take into account the effect of the growth of supplier credits on the field for development credits.

The Council discussed briefly the proposed announcement of the plan to the public. Mr. Arey indicated that following the brief announcement to the press around November 11 Eximbank proposed to submit a detailed story for publication in the *Foreign Commerce Weekly*.

The Chairman then summarized the discussion, indicating that it was agreed that the plan was experimental. He noted that it offered the immediate advantage of a positive proposal for the Rio Conference,[2] and stressed the importance of orderly procedure for reviewing it in the NAC. He suggested that the Council review the entire program in six months on the basis of reports of the Export-Import Bank. The Council then approved the draft action.

The following action was taken (NAC Action No. 734):

"The National Advisory Council advises the Export-Import Bank that it approves the program for exporter lines of credit outlined in the Bank's letter of November 2, 1954 (NAC Document No. 1700). It is understood that the Export-Import Bank will submit to the Council a monthly report of its activities under this program."

[Here follows discussion concerning the proposed International Finance Corporation (IFC); for documentation on the IFC, see pages 227 ff.]

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[2] Reference is to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly referred to as the Rio Economic Conference), held at Quitandinha, Brazil, Nov. 22-Dec. 2, 1954; for documentation concerning the meeting, see vol. IV, pp. 313 ff.

UNITED STATES INTERNATIONAL TRANSPORTATION AND COMMUNICATIONS POLICY

Current Economic Developments, lot 70 D 467

Current Economic Developments [1]

[Extract]

SECRET WASHINGTON, February 18, 1952.
Issue No. 344

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Assessment of North Atlantic Route Pattern by Department

In a letter [2] to the Civil Aeronautics Board the Department gave its tentative views on the study of US civil aviation operations via the North Atlantic which is pending before the Board and which must be completed by July 1952, when the certificates now held by PanAm and TWA are due to expire. We stressed that our views are tentative and subject to revision as the proceeding unfolds, but we are at this time of the opinion that: 1) a return to the area service concept is advisable rather than a continuance of point-to-point competition; 2) the national interest requires continued certification of carriers to serve points for which carriers are now certificated and to which service is provided; and 3) that limited certificates rather than those of permanent duration have definite advantages from the national interest standpoint. We feel also that service should continue to be certificated to points behind the Iron Curtain even though they may not be served at this time since they compose a part of a comprehensive route pattern for Europe.

Background. In July, 1952 the two international carriers flying the North Atlantic routes to points in Europe, North Africa, and the Near and Middle East will require new certifications to continue their operations on these routes. It was planned in 1945 when service was established that a complete review of the North Atlantic route pattern would be made in 1952, based upon experience gained during the seven years' trial period. This procedure was decided upon to allow flexibility in crystallizing permanent route pat-

[1] Regarding this publication, see footnote 1, p. 120.

[2] Presumably a reference to a letter dated Jan. 22, 1952; for information concerning the letter, see footnote 1, p. 395.

terns for a rapidly developing infant industry. It also took cognizance of the possibilities of political and economic change and the prospect that our objectives as to traffic development could not be reached in the immediate post-war period. In 1945 three US international carriers, Pan American, American Overseas Airways, and Trans-World Airways, were authorized to operate over the North Atlantic. Then in July, 1950, PanAm was granted the right to acquire the property, assets and business of AOA and the authority to fly its routes. At that time, President Truman expressed the desire that a route pattern be established whereby the US international carriers (PanAm and TWA) might have the benefit of competition to the principal traffic points in Europe and avoid a monopoly on the part of either of the US carriers. He decided both carriers should be authorized to serve the four European cities which he considered to be the most important—London, Paris, Rome and Frankfort. This became known as the North Atlantic Route Transfer decision and constituted a change in practice from the area service concept whereby our international carriers were generally not permitted to serve identical transfer points to the concept permitting them point-to-point service.

In November, 1951 the CAB informed the Department that applications had been filed by PanAm and TWA requesting the extension, with certain modifications of their respective authorizations to engage in foreign air transportation across the North Atlantic which expire July 4, 1952. In order that the Board might assess thoroughly the entire question of the North Atlantic route pattern, and in view of the increasingly important part international civil aviation is taking in regard to our foreign relations as a whole, the Department's comments were requested.

Department Views. Our views are predicated on the assumption that: 1) US international air services should continue to be extensive and should touch most of the countries of the world into which we can gain access on an acceptable basis; and 2) the US should continue its present efforts to maintain a system of maximum competitive freedom in international civil aviation.

It is becoming increasingly evident that the favorable position enjoyed by the US in the field of international civil aviation in the years immediately following World War II has considerably altered with the establishment of trunk and, more important, extensive regional services by foreign carriers. Not only is there evidence that we would have great difficulty in expanding our present operating rights abroad, but it is also increasingly apparent that the maintenance of what we now have will be more and more difficult in the period immediately ahead. Therefore, we feel that our present and future negotiating position in civil aviation matters should be thor-

oughly considered in the CAB's decision regarding the North Atlantic route pattern.

As for specific issues, we recommend a return to the system of area services as the best means of serving US long-range aviation interests. We feel that most of the basic advantages of competition can be obtained through the competition between US carriers and foreign flag carriers. Therefore, it was argued that the public interest would be served most effectively through a system which recognizes the direct competition that exists between US and foreign air carriers but which, at the same time, provides a means for judging the standard of performance of the US carrier through the existence of another such carrier performing comparable services under similar conditions in another area. In addition, the US stands to gain numerous economic advantages from the existence of viable civil air transport enterprises in friendly countries. A return to the area concept should contemplate a fair and equitable allocation of the routes in Europe and the Near and Middle East for the US carriers serving those areas in such a manner as to establish relatively equivalent opportunities for them. It is felt that since we have consistently opposed the "chosen instrument" idea and favored the pattern of several US carriers competing in international air transportation, it is desirable to conduct such competition within reasonable bounds for much of the force of foreign opposition would be diluted by such self-imposed restraint.

In general, the Department believes the national interest requires continued certification of carriers to serve points for which carriers are now certified and to which service is provided. Not as yet having had an opportunity to measure suggested solutions to this problem by the criterion of the economic costs of operations, the Department has sought a solution by distinguishing between: 1) points to which the national interest indisputably required certification of US carriers and service by them; and 2) points where such requirement cannot be clearly shown but to which certification of a US carrier is desirable.

In considering the route pattern and carrier participation for service through the Middle East, account should be taken of the services now being operated by US carriers in that region, the local arrangements and obligations assumed by those carriers, and the political relations between the US and the countries in the region. Requesting that the Department have an opportunity for consideration of any proposal for elimination of service to any points currently served in that area, or a reallocation of existing route patterns which might affect services presently operated in that area, we recommended that two carrier services be continued at least as far east as India.

We have recommended that the certificates to be issued in July should be of limited duration rather than permanent, because we believe that international air transport is still in the process of development and freezing the present route pattern is undesirable. Furthermore, rapidly changing political conditions in the entire world require some flexibility, and the ability of the US Government to review the situation periodically serves as a reminder to the carriers that their conduct of business in the national interest would be one of the factors considered in renewing their certificates from time to time. This recommendation was made on the assumption that it will be possible to treat both carriers operating over the North Atlantic in the same manner. Therefore, since it is understood that PanAm enjoys permanent certification over a portion of its routes, the recommendation that certificates of limited duration be issued would be modified should the Board not find it possible to change these certificates by limiting them to specific terms. In this case, it would be recommended that TWA be given permanent certifications of comparable importance and that all other certifications be of a limited nature.

With respect to the Board's inquiry as to the advisability of certificating presently authorized points which are not now served, we believe it desirable to include points necessary for a comprehensive pattern for service to all the areas reached by way of the North Atlantic even though service to those points may not be possible at the present time. On this assumption, the Department believes that it would be appropriate from the standpoint of foreign relations to include points in the Soviet orbit necessary to form a comprehensive air transport service pattern. However, it is emphasized that in view of the fluidity of US-Soviet relations, requiring continuous reappraisal of all aspects of these relations, the Department may wish to make additional comments on this particular issue in the light of developments during the progress in the case.

The problems of providing air service into and through Germany are unique and will remain so as long as Germany is divided and Berlin must be treated as a special circumstance. These problems emphasize the desirability of temporary rather than permanent certification. For the present it is believed sufficient to either: 1) certificate both US carriers on a temporary basis to serve Berlin; 2) enable both to provide service under temporary, extendable exemption orders; or 3) insure adequate service through a combination of these methods. We feel that both carriers should also, for the foreseeable future, be authorized to continue their Frankfort services. At the present time it appears necessary that service to Munich, Cologne-Dusseldorf, Hamburg and Bremen be authorized, with one-carrier service to each of these points being adequate. No serv-

ice need be provided to Stuttgart at this time. The majority of points presently authorized for service and served required no additional comment.

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900.521/3-652

Memorandum by Robert A. Thayer of the Office of Near Eastern Affairs to the Acting Deputy Director of the Office of Transport and Communications Policy (Klemmer)[1]

CONFIDENTIAL [WASHINGTON,] March 6, 1952.

Subject: Technical Assistance Programs in Civil Aviation

The situation with respect to U.S. technical assistance to foreign countries in the field of aviation is one which should give rise to serious concern on the part of the U.S. Government, in my opinion. In general, the U.S. does not appear to be engaging in a sufficiently vigorous bilateral technical assistance program. This deficiency appears to be particularly acute in the NEA area. In raising this subject, I would like to set forth certain assumptions upon which this memorandum is based. These assumptions are: (1) No suggestion is being made to the effect that a higher priority should be given to aviation technical assistance in relation to non-aviation projects than is currently the case. (2) It is not intended to imply that the U.S. Government should compete with UN agencies in offering technical assistance, or that pressure should be placed upon foreign governments to induce them to request U.S. rather than ICAO assistance.

Technical assistance to foreign governments designed to raise the standard of their civil air power in all its aspects (air transport, ground facilities, techniques and administration) has in most cases important political and strategic implications to the U.S. which are not necessarily applicable to technical assistance in other fields such as agriculture and health. Because of this fact the motivation behind the interest of the U.S. in aviation technical assistance should differ to a considerable degree from that which leads us to promote programs designed generally to raise the standard of living and social conditions in foreign countries.

Technical assistance in aviation serves the following purposes: (a) It increases the defense potential of the recipient nation by improving its air power potential. (b) It improves facilities which the U.S. and her allies may require during an all-out emergency. (c) It pro-

[1] Drafted by Thayer.

motes the sale of U.S. manufactured aeronautical equipment and matériel, thus developing long term markets for an industry essential to national defense. (d) It promotes the adoption of U.S. techniques, which in turn serves to assist in furthering (b) and (c) above. (e) It provides the U.S. Government with intelligence opportunities with respect to an activity of great military importance.

The above list is not intended to be exhaustive and deliberately omits mention of the benefits in terms of economic development which accrue from well-developed air transport in an area such as the Near and Middle East. The omission of mention of this factor is deliberate in view of assumption No. (1) above.

If the above listed benefits accruing to the U.S. from aviation technical assistance are accepted as being valid, it would appear that technical assistance programs now under way or planned are inadequate both in number and in character. With the exception of Greece, the only U.S. aviation technical assistance now being rendered in the NEA area is of a "spot" character. We have no missions in the field nor do we have any requests for assistance of a comprehensive nature. This situation has been brought about as I see it for three major reasons. (1) The failure of the U.S. to be aggressive in "selling" its technical assistance capabilities to foreign governments. (2) Our timidity in encouraging a foreign government to seek American assistance once that government or ICAO has entered into discussions regarding the possibilities of ICAO assistance. (3) The preference shown on the part of some governments for assistance from an international body as opposed to bilateral programs which, it is feared, may have strings attached.

There is probably little that can be done with respect to the desire of foreign governments to seek international rather than bilateral assistance. Only time and experience can prove that the U.S. Government does not use its offers of assistance as a means of exploitation.

With respect to our failure to make known to foreign governments our capabilities in the field of technical assistance, the ground which has been lost could perhaps be recovered in part at least by an aggressive informational campaign. The question of the relationship of ICAO to the U.S. in the field of technical assistance is a difficult one, however it is my impression that we are in many cases failing to achieve our legitimate objectives by following an unrealistic policy of undue deference to ICAO. A reexamination of our policy appears called for.

In the first place, the desire to avoid duplicating efforts in a given country appears to be so sound as to be beyond question. As a consequence, the U.S. has not sought to mount a bilateral program where ICAO is already on the job. Unfortunately, however,

ICAO has not always reciprocated in this policy. Both in Greece and in Turkey ICAO representatives have aggressively and actively sought to inject ICAO into the picture in spite of the difficulties which this will, and already has, caused the U.S. Secondly, the U.S. has been so timid that we have avoided even suggesting to a foreign government that a better program might be arranged bilaterally with the U.S. than would be the case through ICAO where practical difficulties exist within the ICAO organization limiting the effectiveness of the program. This timidity on our part appears to indicate that we are more concerned with the form than we are with the substance in that greater weight is given to the question of what agency should do the job than to the best method by which the job can properly and effectively be accomplished. This is not intended to imply that in all cases a bilateral program by the U.S. offers the best technical assistance. On the other hand, we should not fail to recognize that in most cases the U.S. can provide a better program with better technical backstopping than can ICAO. When representatives of ICAO make visits to foreign countries for the purpose of promoting ICAO technical assistance and when U.S. representatives in those countries fail to inform the governments concerned of what the U.S. could do, it is only natural that a large number of requests will be filed with ICAO. Once such a request is filed the U.S. withdraws from the picture even though there may be a clearly defensible justification for a bilateral program by the U.S. in terms of our own interests as well as those of the country concerned.

Recommendations:

The following steps are proposed to remedy the present situation.

(1) The U.S. Government should make available to all friendly governments which are believed to be interested in technical assistance:

> (a) A statement of what the U.S. has accomplished in the past in foreign countries and (b) a statement of the technical assistance facilities and programs which the U.S. is in a position to offer. This information should be prepared by the CAA and after receiving the necessary clearance should be published in pamphlet form and given wide distribution through every available channel.

(2) TCA and MSA country directors should be given a policy directive with respect to ICAO–US relations which will make it clear that while the U.S. does not propose to undercut or to sabotage ICAO efforts, an aggressive policy of promoting U.S. aviation technical assistance should be followed within the limits of approved country programs.

(3) The active cooperation of U.S. air carriers operating abroad should be enlisted in support of U.S. aviation technical assistance both public and private.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

SECRET WASHINGTON, April 28, 1952.
Issue No. 354

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US International Television Policy

A newly adopted US policy on international television standardization provides for our advocating adoption by other countries of the same technical standards for operation of their television systems as have been adopted by the US or for adoption of standards compatible with ours. This is considered necessary to facilitate the eventual interchange of programs, free interchange of transmitting and receiving equipment, and for greater and more efficient utilization of the radio spectrum. The progress of television development in various parts of the world and its establishment in some countries of the Western Hemisphere have emphasized that the future interests of this country may be jeopardized if the US fails to work actively for compatible television standards and finds itself in an isolated position. This is particularly important so far as other countries of the Western Hemisphere are concerned because it is, of course, technically possible at this time to establish links between those countries which will permit the interchange of programs.

A meeting of the television study group of the International Radio Consultative Committee (CCIR) scheduled for May in Stockholm prompted urgent action on our part so that the US delegation would be prepared to present a positive position in support of our television standards or compatible ones. We have had indications that there is certain dissatisfaction with the performance characteristics of the 625 line system now largely utilized in Europe, that there is a tendency to favor the 525 line US standards instead, and that the Netherlands interests will raise this question at the meeting.

Background. The first discussion of television on a government level took place at the CCIR Plenary Assembly at Stockholm in 1948 at which time a television group was set up to study and make recommendations on the possibilities of the international

standardization of television systems to facilitate interchange of programs. The study group's first meeting was held in Zurich in 1949 where four different systems were proposed for worldwide adoption. The 405 line system was in use in the UK, the 525 line system was in use in the US, the 625 line system was used experimentally in and proposed by the Netherlands, and the 819 line system had been adopted as the operating standard in France for a ten-year period. In doing this, however, the French operating agency was also committed to transmit on standards of 441 lines, which had previously been in use in France, for the same period of time.

It was agreed that the four proposed systems should be viewed in operation in order better to appraise their quality of performance, and demonstrations were accordingly held in the US, France, the Netherlands, and the UK in spring, 1950. A study group meeting followed in London at which seven countries of continental Europe declared themselves in favor of the 625 line system advocated by the Dutch and compatible with US standards. These countries invited France and the UK to consider joining them in standardizing television for Europe on the 625 line system. Later in 1950, countries interested in the 625 line system met in Geneva and worked out the complete set of standards based on this system. The UK, US and France were represented.

Results of the television study group's discussions were submitted to the CCIR Plenary Assembly in 1951 at Geneva. General agreement was reached on many of the component characteristics common to all systems. The majority of the interested continental European countries expressed their interest again in establishing the 625 line system, but the principal users of other systems (including the US) were not in a position to agree to change their established operating standards. The US remained in a favorable position, however, when the decision was taken in favor of the 625 line system because it is compatible with the US system.

Technical Considerations. In approaching the problem of the international standardization of television systems, there are several technical questions which must be weighed. These questions and their significance arise in relation to the three major policy objectives which standardization would bring about: 1) the interchange of programs; 2) the international interchange of equipment and techniques; and 3) the more effective utilization of the radio spectrum.

The direct interchange of programs is not presently feasible between countries separated by extensive water areas. Repeated relaying is required to cover large distances of the order of several hundreds or thousands of miles and such relaying cannot now be

accomplished economically over water. There does not seem to be any reasonable prospect that such exchange will be feasible within the foreseeable future. Within regions, such as the European continent or American continents, however, exchange is a practicability. Interchange is not likely to be practical immediately throughout the length of the American land areas, but sufficient interchange between adjacent countries may occur, making uniform standards desirable.

All methods for the direct or instantaneous interchange of programs between television stations require that the several stations involved in the simultaneous broadcast operate on the same standards with regard to the same number of pictures per second and lines per picture. There have been proposals and some experimental work, looking toward equipment which will make possible an immediate translation of program material from one set of standards to another but, in this country at least, there has been no commercial equipment of this type available. However, the experimental work looks promising and it is quite possible that a successful development will occur within the next few years.

At first it would appear that the international sale or exchange of equipment would be facilitated by having international standards. However, this problem is complicated by the existence of electrical power systems of different characteristics in the various countries. Differences in power voltages pose some problems as to interchangeability, but their solution is relatively simple, provided that the differences are anticipated in the design and manufacture of the television equipment. A second and more serious group of problems arises from differences in the frequency of the power stations. These problems are soluble provided they are anticipated at the design stage of the equipment since solution may involve additional filtering, shielding and parts placement in order to minimize the effects of power supply "hum" on the reproduced pictures.

The allocation of frequencies and the efficiency of frequency utilization is affected materially by the selection of television standards. The width of the television channel is determined by many technical factors, and the selection of specific channel widths and transmission specifications is a compromise of many conflicting factors. The distance at which assignments may be duplicated with a tolerable degree of interference between stations also affects selection of standards.

Television in Europe. As a result of adhering to a "hands-off" policy, the US stood to lose its leadership in international television matters without having adopted a positive position on this issue. Television interests in other countries have not been idle.

The French and British have been ceaseless in their efforts to promote their systems.

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911.5200/5-152

The Secretary of State to the Chairman of the Civil Aeronautics Board (Nyrop)

CONFIDENTIAL [WASHINGTON,] May 1, 1952.

MY DEAR MR. NYROP: Reference is made to the Department's letter of January 22, 1952[1] and subsequent correspondence concerning the foreign affairs aspects of the North Atlantic Certificate Renewal Case, Docket No. 5065, et al.,[2] now pending before the Civil Aeronautics Board. During the past several months the Department has taken the opportunity to consult with the representatives of the United States stationed abroad and has had the benefit of their practical first-hand observations on the international aspects of United States civil aviation. Aided by the comments of these representatives and by its own continuing study and evaluation from the viewpoint of foreign relations of the evidence and opinions presented to date, the Department now wishes to present some additional views and to elaborate on its earlier views. The Department continues to believe in the validity of the views expressed in its letter to the Board of January 22, 1952 and takes this opportunity to reaffirm its previous position.

It is noted that the recommendation of the Chief Examiner is for continuing a duplication of service by United States carriers to many traffic points and against a return to the area service concept. Without belaboring this point the Department wishes to record, for the reasons expressed in its letter of January 22, its adherence to its earlier-expressed conviction that the long-range interests of the United States would be best served by a return to an area service concept and the reduction of point-to-point competition between American carriers. It must be recognized that a return to the system of area competition would require, to some extent, changes of routes already being operated. It would seem that it would be relatively easy to make such changes now but that it would become increasingly difficult to do so as continued operations cause the carriers to become more and more firmly en-

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[1] Not found in Department of State files, but Department records indicate the reference letter bears file number 911.5200/11-1651.

[2] Reference is to the applications by Pan American World Airways and Trans-World Airlines for extensions of their transatlantic routes.

trenched on the routes. There should also be taken into account the fact that a change now would be made voluntarily by the United States on its own initiative whereas, if the foreign reactions already observed continue, a change at a later date may be forced by the pressure of foreign objections to the growing competition by United States carriers, making it difficult to achieve the orderly and economically desirable arrangements that might now be made voluntarily.

The Department also reaffirms its previously expressed view that national interest requirements would be better served by the grant of certificates of limited duration rather than permanent certificates. Certificates of limited duration are important in helping to retain the flexibility necessary to enable the United States Government to adjust to changed conditions when they occur. The Department cannot regard the operating history of our trans-Atlantic services as being sufficiently extensive to enable the Government to make accurate and long-range appraisals of the problem. Despite knowledge gained in the past years of operation, the United States still cannot forecast with any degree of certainty the civil aviation needs of the future sufficiently accurately to justify shackling itself by granting permanent certificates. Moreover, the United States Government is confronted with a growing concern on the part of foreign governments over the competitive impact of operations by United States carriers and at the same time these foreign governments have developed strong protective attitudes toward their own growing carriers. This situation, pointing as it does to a fluid and uncertain aviation picture in the future, emphasizes the importance to the United States Government of retaining the flexibility of certificates of limited duration. Recent experiences in Mexico illustrate the desirability of retaining to the United States Government the ability to adjust outstanding certificates.[3]

In addition to providing flexibility in adjusting to changing international conditions the issuance of certificates of limited duration also provides the United States Government with an element of control over the actions of its carriers. When a carrier is obligated to give an account of its services and its methods of operation at specified intervals, and when the retention of the certificate under which the carrier is operating is dependent in part at least, upon a showing that the carrier's operations and conduct are in the interest of the United States, that carrier is less likely to develop a history of unsatisfactory operations abroad than is the case when the carrier feels that by reason of possession of a permanent certificate

[3] For documentation concerning U.S. efforts to conclude a bilateral aviation agreement with Mexico, see vol. IV, pp. 1324 ff.

it is beyond the control of the United States Government. The United States Government has unfortunately few means at its disposal for the control of the international operations of its carriers and it is considered essential therefore that it retain at least the degree of control represented by limiting the duration of certificates.

The Department's position with respect to the duration of the certificates to be issued is modified only to the extent that the Department, being anxious to see the creation of relatively equal conditions of opportunity and stability for both PAA and TWA, would urge that permanent certificates necessary to create such substantial equality be issued. Accordingly, the Department urges that no additional permanent certificates be issued to PAA and that permanent certificates be granted to TWA only to the extent necessary to place it in a position substantially equal to that of its competitor. Care should be taken that this substantial equality be an equality in fact rather than merely a seeming equality.

Another point on which the Department wishes to comment is the question of whether the certificates should name the particular traffic points to be served or should use the form used in the 1945 Order and provide for intermediate points in specified countries.[4] The record of past experience clearly indicates that freezing of the service pattern and the consequent loss of ability to adjust periodically the routes of our carriers can seriously handicap the CAB as well as the other United States agencies concerned with our international civil aviation. The Chief Examiner based his recommendation for extensive certification of individual points on a conclusion that relative stability has been attained and that there is no longer a need for flexible certification. As has been indicated above in comments on the undesirability of permanent certification the Department does not agree with the Chief Examiner on this point and considers the Chief Examiner's conclusions to be contrary to the aviation experience of the United States throughout the world. It is considered that the present aviation situation is fluid and developing and that occasions will arise when the Board will find it necessary to adjust the route structure with a minimum of time and procedural difficulty. This can be accomplished more easily if the certificates issued delineate the routes in general terms as far as possible.

An illustration of a country where events may require service pattern adjustments is the Federal Republic of Germany. The De-

[4] Reference is to the 1945 CAB order certifying transatlantic service for Pan American Airways, Inc., American Export Airlines, Inc., and Transcontinental and Western Air (TWA).

partment anticipates the negotiation of an air transport agreement with the Federal Government in the near future. To follow the Examiner's recommendation would result in the authorization of service to seven specific points in Germany whereas there is some question as to whether the United States would consider it desirable to include that many traffic points in its agreement with Germany. It would be desirable in any event to be able to adjust the pattern of United States carrier service to Germany following the negotiation of an air transport agreement and the establishment of a pattern of service by German carriers. The situation in Iraq is equally well known to the Civil Aeronautics Board and is also indicative of the advantage of retaining maximum flexibility through certification of service to a country rather than certification of service to a particular traffic point.[5] The difficulty that has arisen in Mexico in part as a result of the certification of United States carriers to serve specified points to and through that country is a further example of the need for preserving freedom of action for the United States Government.

In recommending that the certificates be limited in duration and that insofar as possible the certificates should delineate the routes in general terms, the Department believes the considerations underlying these recommendations apply with equal force to the United States civil aviation situation throughout the world and are not confined to the problems presented in this particular case.

With regard to the situation east of Cairo the Department wishes to express its wholehearted concurrence in the Chief Examiner's recommendation for the continuance of the present routes into and through this area and for the continuance of operations by two United States air carriers in the Middle East and South Asia. The growing importance of the Middle East and South Asia to the United States and the importance of the activities of United States air carriers in terms of our foreign relations in that area, make it highly desirable that the existing route structure be maintained without substantial modification, and that there be no substantial reduction of United States airline activity in the region.

The United States Government has frequently reiterated the view that international air services should be performed over reasonably direct routes from the points of origin to the points of destination. This position has been taken by the United States in a number of instances when foreign air carriers seeking to establish new routes to the United States have been advised that this Gov-

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[5] Reference is to the limitations placed by the Iraqi Government on PAA service into Baghdad. These limitations led to the withdrawal of U.S. flag carrier service to Baghdad. U.S. service to Basra, in Iraq, was able to continue. Documentation on this subject is in Department of State file 987.52.

ernment could not agree to the establishment of routes which approached the United States in such an indirect manner as to cause doubt whether their purpose was to effect service from the country of origin to the point of destination or was primarily to effect service from some intermediate point to the United States. In view of the position which the United States has taken in this respect it is necessary that the United States avoid establishing routes for its carriers which would themselves be open to the criticism that their main purpose is that of providing service between two foreign points rather than that of providing service from a point in the United States to the point of ultimate destination.

The establishment of indirect routes for United States carriers becomes of even more concern when it appears from the United States Government's own documents that such indirect routes may be established for the primary purpose of carrying fifth freedom traffic.[6] In the Chief Examiner's report there have been several references to the fifth freedom traffic which may be generated along the routes recommended. This Department, in common with other Government agencies concerned with international operation of United States airlines, is anxious to insure the full participation of United States air carriers in the traffic which may be generated along their routes. However, it may redound to the disadvantage of the United States if certain routes are justified in the Board's opinion on the ground that they can be supported by fifth freedom traffic. The Department therefore urges that the Board avoid placing undue emphasis on the dependence of United States carriers on fifth freedom traffic over certain routes. Care should be taken especially in cases where the route segments over which an unusually large percentage of fifth freedom traffic might be carried are served by United States carriers only as the result of substantial deviations from a reasonably direct route. Undoubtedly the Board will be able to justify its decisions without making statements which might be used by other countries as evidence that the routes, or segments thereof, rely on fifth freedom traffic to such an extent that they could not be justified in the absence of fifth freedom traffic. The Board's cooperation in this matter will, it is believed, help to prevent the creation of unfavorable attitudes abroad and the establishment of arguments which might be used against the United States in future route negotiations.

There remain several specific route questions on which the Department has the following comments.

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[6] Fifth freedom traffic refers to the right to carry air traffic from a point of origin in one foreign country to a point of destination in another foreign country.

Afghanistan—Although the certification of service to Afghanistan is not recommended in the Chief Examiner's report, the Department believes it would be in the national interest of the United States to continue certification of service to this country.

Kuwait—The Department recommends the certification of a United States carrier to serve Kuwait. It is considered that certification of a United States carrier to serve Kuwait could beneficially influence the current difficult situation in Iraq as Kuwait could serve as a potential alternative to a traffic point in Iraq. Since Basra is served by both carriers, the need for service in Kuwait is perhaps debatable. However, it would appear undesirable to create a rigid situation so as to preclude the possibility of an American flag service to this state. Past experience has shown that from a practical point of view the United States Government is in a much stronger position in arranging service to a country named in a certificate than in cases where the country involved has not been so named.

Lisbon—The Department is concerned over the Examiner's recommendation that Pan American be certificated to serve Lisbon as an intermediate point between The Azores and Dakar on the South African route. There are a number of factors which give rise to this concern. First, there is the matter of the circuity involved. As pointed out by the Chief Examiner the direct route The Azores–Dakar is 1608 miles whereas the route The Azores–Lisbon–Dakar is 2624 miles, an increase of 1016 miles. Secondly, there is the question of the justification for the service of Lisbon on this route. The Chief Examiner, in discussing the routing via Lisbon, refers to the revenue received by Pan American for traffic carried between Lisbon and other points on the route, inferentially points in Africa. His analysis emphasizes that the prime motivation in directing the South African route through Lisbon is to improve the economy of the operation through the added revenue gained from carrying fifth freedom traffic into and out of Lisbon from points in Africa. In no other way is there offered justification for service of Lisbon on this route. In the face of the foregoing facts, the certification of a carrier to serve Lisbon on the South African route would seem to place the United States Government on record as subscribing to the precept that, in the interest of improving the economy of a route, it is proper and acceptable to deviate substantially from the reasonably direct course in order to gain revenue from fifth freedom traffic thereby. The certification of service on such an indirect route, although it might produce temporary and limited benefits, would be inconsistent with the position of the United States that routes should be reasonably direct. The Department has considered this problem in relation to the problem with the Philippines and

has been unable to escape the conclusion that the certification of a carrier to serve Lisbon on this route would present the Philippines with a very strong argument in support of their request for a stop at Tokyo on the Manila–San Francisco route.

There is, moreover, a third factor which causes the Department some concern. As the Board knows, the United States-Portuguese Air Transport Agreement does not provide for a United States route beyond Lisbon to points in West Africa. Pan American's operation of this service in the past has been on the basis of a special and temporary arrangement with the Portuguese Government, which has consented to this service by Pan American until such time as a Portuguese carrier commences operations between Lisbon and points in West Africa. Statements made by the Portuguese from time to time cause the Department to believe that they would refuse to permit PAA to continue this service when a Portuguese carrier commences a similar service. It is unlikely, indeed, that the Portuguese would consent to a revision of the Agreement so as to establish this service on a permanent basis. Therefore, the Department believes that if the service to Lisbon is to be continued, it should be continued by the use of exemption orders as is now the case.

Casablanca—The report of the Chief Examiner recommends that there be granted a certificate for service to Casablanca on the route through Lisbon to South Africa. This Department does not wish to interpose any objection to the certification of a United States carrier to serve Casablanca if service to that point is considered desirable. However, it does wish to bring to the Board's attention the fact that service to Casablanca cannot be established without the consent of the French Government. Political factors may make it difficult to obtain such consent. The Department also believes that the Board should take into consideration the fact that if PAA were not granted a certificate to serve Lisbon on the route to South Africa or if the Portuguese Government should reach the conclusion that continued operations at Lisbon on this route were no longer permissible, a service to Casablanca might be as effectively offered on a route across North Africa. It is therefore suggested that the Board give consideration to the relative value of a service to Casablanca (a) on a route to South Africa without a traffic stop at Lisbon, and (b) on a route across North Africa.

In the past there have occurred instances when the publication of United States Government decisions relating to air transport operations has brought proposed route changes to the attention of certain foreign governments without those governments' having been previously advised of the matter through inter-governmental channels, either formal or informal. In such cases the manner in

which the foreign governments became aware of the decisions created difficulties magnified beyond their reasonable import and needlessly complicated the international discussions required to implement the decisions. Therefore, the Department requests the cooperation of the CAB in presenting the conclusions and results of the Board's work in the North Atlantic Route Review Case to foreign governments in the best possible manner. It is recalled that in the PAA–AOA Merger Case[7] the Department and the CAB cooperated in bringing certain aspects of the decision to the attention of interested governments in advance of publication with excellent results. It is therefore suggested that the Department and the CAB cooperate similarly in this case in bringing to the attention of interested governments, in advance of publication or at least simultaneously therewith, aspects of the decision which will affect service to those countries, particularly in cases where modification of the air transport agreements may be required.

Sincerely yours,

For the Secretary of State:
J. PAUL BARRINGER
Acting Director
Office of Transport and Communications Policy

[7] Reference is to the merger of Pan American World Airways and American Overseas Airlines in 1950.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

CONFIDENTIAL
Issue No. 364

WASHINGTON, July 7, 1952.

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North Atlantic Route Decision

The Civil Aeronautics Board's North Atlantic Certificate Renewal Decision approved by President Truman on June 28 will permit PanAm and TWA to continue their transatlantic operations with certain modifications until July 4, 1959. The decision continues to permit competitive service between our international carriers to major European cities and adheres generally to the basic route pattern which has been followed since 1950. Certificates will be issued to the carriers for a seven year period except for the grant of several permanent points to TWA, thereby substantially equalizing its competitive position with that of PanAm. In general, the certifi-

cates will designate countries or areas to be served and will be supplemented by a separate document specifying individual points of service. With a few exceptions, the Department concurred in and supported the Board's conclusions.

Background. In 1945 when North Atlantic air service was established by US international air carriers it was planned that a review of the North Atlantic route pattern would be made in 1952 based upon experience gained during the seven years' trial period. In 1950 when PanAm acquired the property, assets and business of American Overseas Airways and the authority to fly its routes, President Truman decided that both PanAm and TWA should be authorized to serve the four European cities which he considered to be the most important—London, Paris, Rome and Frankfort. This became known as the North Atlantic Route Transfer decision and constituted a change in practice from the area service concept, whereby our international carriers were generally not permitted to serve identical transfer points, to the concept of point-to-point service. (See page 3, February 18, 1952 issue.)[1] The recent CAB decision adheres closely to the findings of the North Atlantic Route Transfer Case.

Routes and Certificates. In the new decision the Board ruled that, in general, routes would be awarded to the two international carriers on a temporary basis so as to permit more time and flexibility in determining a permanent trans-Atlantic route pattern. However, since PanAm had previously been accorded permanent authority to serve London, Lisbon and Marseilles, TWA was granted permanent status to serve the New York–Paris–Rome route via intermediate points in Newfoundland and Ireland. In addition, TWA is authorized to serve Kuwait on its flights between Basra and Dhahran, thus linking the major oil centers of the Middle East to the US with a single-carrier service. TWA is authorized to serve the Azores on the route between the US and Portugal, and Italy will be added between Tunisia and Egypt. According to the new decision, TWA will continue operations to India, specifically Bombay, but not to points further east. The Board is deferring decision on TWA's application to serve points east of India until this question can be considered with Northwest Airlines' application for extension of its trans-Pacific system to India.

PanAm will be certified to serve Nice on its route to Marseilles and its Lisbon–Foynes route has been eliminated. The latter was started during World War II as an emergency measure and has not been used since 1946. For the present PanAm will continue to serve Basra on its Middle East route. PanAm was originally au-

[1] *Ante*, p. 385.

thorized to operate to Baghdad rather than Basra, but because of inadequate airport facilities at Baghdad, PanAm has been serving Basra instead. Under the new decision, PanAm will continue to serve Iraq with the provision that its service to Basra shall terminate sixty days after the conclusion of mutually satisfactory arrangements between Iraq and the US providing for service to Baghdad. Consistent with the Board's decision regarding TWA's application to serve points east of India, PanAm will continue to operate its route to Calcutta but consideration of its request for route renewals east of that point is being deferred.

On its South Atlantic route, PanAm will be permitted to serve Lisbon and Casablanca as intermediate points between the Azores and Dakar. PanAm's South Atlantic route operation to Lisbon has until now been covered by an exemption order. PanAm's certification to operate the South Atlantic route will terminate August 14, 1952 at which time this portion of PanAm's operations will be reviewed.

New York will be the terminal point for both carriers, with Chicago, Detroit, Boston and Philadelphia designated co-terminals. The Board decided that continuation of Washington and Baltimore as transatlantic co-terminals was unwarranted and eliminated them.

Department's Views. When the case was under review the CAB adopted some recommendations made by the Department. These included recommendations that: certificates be issued to the carriers on a temporary basis; the competitive positions of TWA and PanAm be more nearly equalized by according TWA permanent points of service; the *status quo* be maintained in the Near East; and certificates include service to satellite areas despite our inability to serve those areas at this time.

Although the Department considered the Board's decision in general a satisfactory solution of the complex issues involved in the case, it recommended certain changes to the Bureau of the Budget prior to submission of the decision to President Truman for approval. These recommendations were over-ridden, however. Among other things, we felt that a period of from three to five years would be more satisfactory than seven for the duration of the certificates, believing the experience gained during the next three to five years added to that obtained since the decision of the North Atlantic Route Transfer Case in 1950 should provide an adequate basis for evaluating the performance of the two US carriers. We felt that other countries might be less restrictive toward the activities of our carriers if they were made aware of the fact that the routes were subject to continuing review and possible change.

Also, we urged against statements in the Board's opinion indicating that US carriers rely heavily on the carriage of traffic between the territories of other states along international trunk routes (fifth freedom traffic), particularly where such traffic would be gained as a result of substantial deviation from a reasonably direct route. We particularly wanted to avoid this situation with respect to awarding PanAm service to Lisbon and Casablanca on the South Atlantic route because of the possibility of its bringing about complex aviation negotiations with France and Portugal. We would have much preferred in these instances that short-term exemption orders be issued.

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S/S–NSC files, lot 63 D 351, "U.S. Civil Aviation Policy—U.S.S.R. and Satellites"

Memorandum Prepared by the Aviation Policy Staff, Office of Transport and Communications Policy[1]

TOP SECRET [WASHINGTON,] October 21, 1952.

CURRENT IMPLEMENTATION OF NSC 15/3[2]—"UNITED STATES CIVIL AVIATION POLICY TOWARD THE U.S.S.R. AND ITS SATELLITES"

The policies established in NSC 15/3 have been, on the whole, effectively implemented. Soviet and Satellite civil aviation has been contained to the extent considered necessary to provide the desired "balance of advantage." Although the Polish airline, LOT, is permitted to operate to Brussels, Paris, Copenhagen and Stockholm; we obtain an advantage through the British courier air service to Warsaw. The Russian airline, Aeroflot, serves Helsinki at which location containment would be difficult, if not impossible, to enforce. However, several of the Western Powers also have agreements to operate into Helsinki; and, in fact, Pan American World Airways includes it as a regularly scheduled stop.

The Czech airline, CSA, has provided an essentially different problem in the implementation of NSC 15/3. Before the 1948 Communist coup in Czechoslovakia, this airline had extensive services throughout Europe; and in turn, the Czechs maintained a liberal policy in granting operating rights for airlines of the Western

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[1] Drafted by Henry T. Snowden, Assistant Chief of the Aviation Policy Staff. A covering memorandum by Robert E. Asher, Special Assistant to the Assistant Secretary of State for Economic Affairs, to Bromley K. Smith, alternate senior member of the NSC for the Department of State, concerning the Aviation Policy Staff memorandum, reads in part: "It is my understanding that it has been discussed with EUR and is satisfactory to that bureau."

[2] NSC 15/3 was approved by the President on Jan. 6, 1950.

Powers. Therefore, at the time of the containment decision, Praha had become the hub of Western airline penetration of the Iron Curtain and the operating rights of CSA throughout Europe were firmly established. As a result, the curtailment of CSA operations proceeded at a slow pace with every attention being given to maintaining western air connections to Praha. Restrictions on operators and passengers into Praha nevertheless made the service uneconomical; and Pan American World Airways, the United States certificated carrier, finally received in the fall of 1950 government approval to suspend service on this route. As a result of a foreign policy decision in 1951 to exert pressure on the Czechoslovak Government in various ways because of its action against American interests steps were taken in cooperation with Western European states to curb CSA operations through denial of permission for flights over the territory of the German Federal Republic. As a result CSA now operates only to Copenhagen, Stockholm and Helsinki. Recently resumption of operating rights to Brussels and Paris by a circuitous route through Copenhagen have been strenuously sought by the Czech Government but so far they have been successfully denied. Although, as one of their reprisals to our pressure measures, the Czechs have evicted from Praha the Pan Am sales office, the last vestige of United States airline activity, they have strangely, and to our advantage, permitted Western European airlines to continue their Praha operations.

Yugoslavia was exempted from the provisions of the containment policy by Presidential approval on August 16, 1949. No efforts have been made to restrict the operation of its national airline, JAT, which connects Belgrade with Munich, Salzburg, Frankfort, Athens, and Paris. The Swiss and Greek airlines have landing rights in Belgrade and it is not believed any great difficulty would be encountered if an American airline were to apply for this service. In fact, a Bilateral Air Transport Agreement exists between Yugoslavia and the United States and close coordination is maintained between the respective aviation authorities. On the other hand, the Yugoslav Government exercises some control over the services to Tirana of the Russian airline, Aeroflot, by requiring a technical stop at Belgrade.

With regard to the implementation of the policy in the Near East, South Asia and Africa, it has been determined that reciprocal landing rights would not offer a balance of advantage to the non-Communist countries; and civil air operations into these areas by the U.S.S.R. and its satellites have been successfully blocked.

Implementation of the policy objectives with respect to the availability of facilities and services and of aircraft and spare parts has likewise been effective. Cooperation of the Western Powers has

been obtained and it is believed that there is a minimum leakage of aviation materials through to the Iron Curtain countries. This situation has been considerably strengthened by United States shortages in these materials and by increased United States vigilance over their end-use, which have, in part, been brought about by the Korean emergency and domestic mobilization.

The policies of NSC 15/3 appear to have been implemented satisfactorily and the balance of advantage remains in favor of the Western Powers. Because of the criteria by which the necessity for action is to be assessed, the objectives have a desirable flexibility and unless unforeseen circumstances recommend amendment, the paper does not require revision.

S/S-NSC files, lot 63 D 351, "U.S. Civil Aviation Policy—U.S.S.R. and Satellites"

Memorandum by the Under Secretary of State (Smith) to the Executive Secretary of the National Security Council (Lay)[1]

SECRET [WASHINGTON,] February 9, 1953.

Subject: Third Progress Report on Implementation of NSC 15/3, entitled: "United States Civil Aviation Policy Toward U.S.S.R. and its Satellites."[2]

NSC 15/3 was approved as Governmental policy on January 6, 1950. It is requested that this "Third Progress Report," as of February 2, 1953, be circulated to the members of the Council for their information.

The policies established in NSC 15/3 continue to be, on the whole, effectively implemented. Action taken in September 1951 to deny the Czechoslovak Air Lines permission to overfly Western Germany, which was determined by a foreign policy decision outside the scope of NSC 15/3, has continued to have the effect of helping to contain the operations of CSA. However, the Department understands that weekly representations are being made by the Czechs for approval of CSA operations into Belgium and the Netherlands. This has so far been denied although the Belgian Government has expressed concern over possible retaliatory measures that may be taken by the Czechs against the operations of Sabena, the Belgian Air Line, into Prague. In these circumstances, Embassy Brussels has been instructed to urge the Belgian Government to keep holding the line against Czechoslovak pressures, especially since no serious retaliatory measures have yet been taken

[1] A cover sheet is not printed.

[2] The first and second progress reports on NSC 15/3 were not found in Department of State files.

and Sabena service will likely be terminated whether or not concessions are made if the Czechs see no advantage in it.

WALTER B. SMITH

E/TRC/AV files, lot 59 D 206, "Middle East—General 1945–1954"

Memorandum by the Civil Air Attaché for the Middle East (Thayer) [1]

SECRET [BEIRUT,] May 14, 1953.

Subject: Aspects of United States Policy Toward Certain Aviation Problems in the Near and Middle East.

On the basis of observations by the Civil Air Attaché, three major aspects of United States civil aviation policy toward the Near and Middle East merit review at the present time as follows.

(1) Associated airline contracts.
(2) Re-equipment of regional carriers with new aircraft.
(3) Development of adequate navigational aids and communications facilities.

The strategic importance of the Near and Middle East in relation to the world situation, and the nature of the political, economic and psychological structure of society in this area are such that a more clearly defined and aggressive policy toward these three problems appears desirable in the furtherance of general American foreign policy objectives.

A basic United States policy objective toward the Near and Middle East is to orient the peoples and governments of the area in the direction of the United States and our Western allies in view of (1) the oil resources of the area, (2) the strategic location of the area in terms of world shipping and air transport routes, (3) military requirements for base rights. Various tools of foreign policy have been chosen to accomplish this objective, including governmental economic and military aid programs, and support of private American educational, religious and commercial activities. The development of U.S. national interest air routes as well as the assistance rendered through government and private channels toward the development of regional air transport have also been an instrument of foreign policy.

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[1] A covering memorandum by Thayer to Assistant Secretary of State for Near Eastern, South Asian, and African Affairs Henry A. Byroade, dated May 15, 1953, indicates that this memorandum was prepared with the concurrence of Ambassador Minor for presentation to Byroade during his visit to Beirut with Secretary Dulles and Director for Mutual Security Harold E. Stassen. For additional documentation concerning the Secretary's and Stassen's trip to the Middle East, see volume IX.

Associated Airline Contracts

The assistance rendered by American aviation interests in establishing and operating important elements of the regional air transport system through associated airline contracts has contributed substantially toward the achievement of the above basic objective. Following World War II, it became possible for the advances made in aeronautics to be applied to the solution of the transport problem of this area where surface means of transport were either nonexistent or inadequate. This was possible because of the development of transport aircraft during the war, the wartime construction of ground facilities, and the availability of surplus transport type aircraft at very low cost from United States sources. Of all the powers, the United States thus was in the best position to assist the countries of this area in the establishment of regional and local air services adequate to their needs and in so doing to promote American political, economic, and strategic objectives in the area. The negotiation of management contracts and/or partnerships between American carriers and Iranian Airways, Saudi Arabian Airlines, Ethiopian Airlines, Greek National Airlines, Syrian Airlines, and Middle East Airlines are examples of what was and has been done in this direction. The commercial interests of the air carriers in the development of feeder lines and the creation of a friendly political atmosphere in the states through which certificated trunk routes were to be operated were motivating factors insofar as the American companies were concerned. This farsighted policy on the part of the U.S. Government and the air carriers, (despite reverses in Iran and Syria which led to withdrawal of the American companies) resulted in placing American aviation interests in a predominant position in Saudi Arabia, Ethiopia, and Lebanon. In these three states, the associated airline contract constitutes one of the most important tangible evidences of American activity and interest in the country. In all three countries in varying degrees the technical and/or management assistance rendered through private channels is of the utmost importance in the maintenance of the air transport system. In Saudi Arabia and Ethiopia the airline provides virtually the only means of tying the country together and is therefore essential to economic and political stability. These contracts provide the means for a continuing program of technical and management assistance through non-governmental channels to a vital public service at a minimum cost to both the United States and the country concerned. As such, these contracts demonstrate what can be done through private investment channels in the furtherance of our objective of helping the foreign country to improve its economy. The associated airline contract also provides a means

for establishing the type of relationship between the United States and foreign countries which affords the best long range opportunity for building a better understanding of Americans, American techniques and the American way of life. Furthermore, the dependence of a foreign government upon American assistance of this type for the maintenance of a vital segment of the economy of the country encourages the orientation of the government of that country toward the United States. Contrary to programs of assistance through government channels, the development of increased relationships on a private level provides a more normal and permanent basis for close relations with the United States.

Lastly, the military advantages of foreign airline associated contracts are believed important, including the opportunity provided for intelligence, the availability of airlift under American control, and the building up of a corps of trained American personnel familiar with local conditions, and skilled in flying under the unique conditions of this area.

If it be assumed, therefore, that the associated airline contract can in many cases further U.S. national interests, two questions arise:

First, whether the American carrier should be required to defray the costs arising from a contract of this kind which are not defensible for purely commercial reasons. For example, TWA has clearly indicated that its connection with EAL would be terminated forthwith were it not for considerations of U.S. foreign policy. How long these broader objectives of national interest can be protected in the face of a situation which places an increasing financial burden upon TWA is doubtful. If the American carrier is to serve as an instrument of national policy in such cases, it would appear reasonable that the U.S. Government should be prepared to bear costs which can properly be ascribed to the public interest.

Secondly, if currently effective associated airline contracts in this area have served the U.S. national interest, a question arises as to whether in certain specific cases it would not be wise to encourage additional arrangements of this type by joint effort of government and industry, under a plan whereby the government would undertake, as suggested above, to compensate the carrier for losses incurred in the public interest, such as advances to cover unpaid debts, losses due to inconvertibility of funds paid the managing carrier in local currencies, etc. Three potential opportunities for associated contracts with foreign carriers in this area which would appear to be commercially unattractive but in the best interests of the United States are; Iranian Airways, Air Jordan, and MISR Airlines.

With respect to Iranian, the Embassy at Tehran has already analysed the factors of U.S. national interest involved in keeping the national airline in operation with Western rather than Soviet assistance, and has indicated the requirements of Iranian Airways for equipment and personnel. Failure to maintain Iranian Airways services through outside help from non-Soviet sources might well provide unfriendly elements in Iran with the opportunity for seeking Soviet aid. A first step toward Soviet penetration of Iran could well be an attempt to place the air transport system under Communist control. It would not be the first time that foreign subversion of a state began by attempts to control the transport system. The U.S. Government fully recognized the danger in South America shortly after the outbreak of World War II and conducted an aggressive program to combat German infiltration of Latin American aviation.

With respect to Jordan, Air Jordan in association with Transocean represents the sole American business venture in the country, is understood to be in a very shaky financial position, and is under pressure by British interests who probably wish to exclude this type of American influence from the country. Transocean does not now appear to be in a position to provide the financial backing to place Air Jordan on its feet in order that the operation may be conducted in accordance with accepted airline practices. In view of this situation it is possible that insufficient support by the American associate may bring about a condition which will reflect unfavorably rather than creditably upon American aviation generally and may adversely affect the climate for additional American investment.

With respect to MISR, the Embassy at Cairo is of the opinion that the negotiation of a management contract with an American carrier (logically TWA) would advance U.S. objectives in Egypt. The Embassy therefore is hopeful that some form of contract will be entered into. In all probability an examination by TWA of the factors involved in concluding a management contract will reveal at least two problems to be overcome; namely, (1) conversion of earnings under the contract, and (2) the requirement of MISR for a substantial increase in capital for the purchase of new equipment. Whether TWA will be in a position to invest large sums in MISR and whether such investment would be viewed sympathetically by the Civil Aeronautics Board are questions which would require study. Prior to the time when the above probable obstacles in the path of the conclusion of a contract between an American company and MISR lead the American interests involved to react negatively to a specific MISR proposal, it would seem that avenues of U.S.

Government assistance to the American company should be explored fully.

Re-equipment of Regional Carriers with American Manufactured Aircraft

The problem of associated airline contracts and the problem faced by the regional carriers of this area in obtaining modern aircraft to replace equipment becoming obsolescent are closely related. Factors of U.S. public interest in the continued use of American aircraft by foreign carriers in this area have been outlined in Beirut despatch No. 473 of February 17[2] and are believed applicable elsewhere in the Near and Middle East. Present trends toward increasing incursions into the U.S. aircraft export market in this area indicate the desirability of a study by the Department and other interested agencies of steps which might be taken to encourage the purchase of American equipment by foreign carriers. While it is true that extending governmental aid to promote the sale of American aviation products in competition with British manufacturers raises a policy question of the extent of U.S. interest in the British economy, it is felt that the issues involved should be considered in all aspects including the apparent political purposes behind current British efforts to sell British equipment to airlines in this area, as well as the political and strategic interests of the U.S. in the Near and Middle East.

Major difficulties facing local carriers desiring to purchase new American equipment are:

(1) The absence of a relatively low priced replacement for the DC-3, C-47, C-46 aircraft in use in this area.

(2) The inability of many Near Eastern carriers to finance new equipment due to low capitalization and lack of reserves for such purchases. The policy of a quick return on capital invested so typical of Eastern business policy has now "come home to roost".

(3) Foreign exchange difficulties.

(4) Unavailability of financing terms competitive with those which foreign manufacturers are able to quote by virtue of governmental subsidy or loan assistance.

(5) The limitation upon export availabilities caused by military production demands, which in turn has tended to cause American manufacturers to minimize sales efforts in soft currency areas.

(6) The psychological factor, namely the inherent preference for four engined rather than two engined equipment. This problem is most apparent in any consideration of the advantages of the Vickers Viscount versus the Convair 340 for use on regional services.

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[2] Not printed. (483A.119/2-1753)

If American equipment is to remain predominant in this area, a way must be found to offer the Convair 340 or similar aircraft at prices and on terms competitive with the Viscount. This might be done by offering longer term and more liberal loans to the prospective purchaser or seller. The availability of this type of assistance should, however, be reasonably certain in advance in order that the seller may be in a position to quote accordingly. Secondly, manufacturers should be encouraged to be more aggressive in their sales efforts once governmental support is assured. Numerous aviation officials in this area have expressed the opinion, for example, that Convair appears somewhat less interested than Vickers in selling its aircraft. Thirdly, in cases where the U.S. national interest would clearly be served thereby, means should be at hand, if feasible, for placing priority on the delivery of aircraft to selected foreign customers. As pointed out in a recent despatch from London, British European Airways has released to foreign purchasers aircraft on order scheduled for early deliveries to BEA. Fourthly, an effort should be made to educate the public away from technically unsound beliefs concerning the lesser safety of two as opposed to four engined aircraft. A statistical analysis of accident rates per miles flown by four and two engined aircraft might be useful in this connection. Lastly, and perhaps in some respects most important, the desirability of developing an economical and less expensive replacement for the DC-3 should again be reviewed, bearing in mind that time is a real factor insofar as putting such an airplane in use in this area is concerned.

It is generally conceded that there may be too many airlines in this area. Those who obtain modern equipment first will be most likely to survive the coming financial storms and remain in business on a reasonably sound economic basis. If the United States has reason to be concerned that the airlines associated with American interests continue to develop and to provide the major share of the airlift in this area, ways should be explored to assist in overcoming the difficulties outlined above.

At the present time, it is believed important to concentrate upon the provision of new aircraft to BEA and MISR Air in particular.

The promotion of a reasonably sound air transport system in the Near and Middle East is important not only to American national interests in the direct sense. The economy of the area depends in large measure upon this air transport system. At a time when U.S. efforts are directed toward economic development of the area, assistance toward the purchase of more modern airline equipment would be an important factor toward a strengthening of the transport system of the region. Unless the existing airline fleets of the stronger regional carriers can be modernized, it is unlikely that the

air transport system can indefinitely meet the needs of the economy of the region or continue to stimulate economic growth. A program of loan or grant assistance for the purchase of new equipment by carriers serving this area therefore appears a desirable part of an economic development program. Such assistance, while relatively unique as concerns the Near and Middle East would not be new, witness grant aid programs to France and Italy under ECA for the purchase of modern four engined equipment to rehabilitate the international air transport systems of those countries. Furthermore, an aid program to Near and Middle Eastern carriers such as suggested would not involve providing them with equipment competitive with U.S. subsidized airlines and would be consistent with our policy of encouraging export markets for United States aircraft manufacturers in the interest of minimizing the impact upon this vital industry of a decline in military purchases.

Development of Adequate Navigational Aids and Communications Facilities

The need for improvement of ground aids to air transport in this area has been recognized by airline operators, by ICAO, and by United States technicians. Progress toward rectification of some of the most glaring deficiencies is being made slowly by the governments concerned both with and without U.S. assistance. An expanded program of technical and financial aid from fiscal 1954 appropriations for economic and military aid to this area is needed and it is hoped will be recommended during the course of the next few months as area requirements can be more clearly defined by personnel now in the field. Agreements covering the installation of VOR equipment at Beirut have virtually been completed and similar agreements are under discussion with respect to Saudi Arabia and Egypt. It is hoped that funds can be obligated for equipment in these two countries prior to July 1953. A recommendation from Washington to the TCA Country Directors to the effect that every effort be made to obligate funds for this purpose within current fiscal 1953 programs would be helpful.

The need for, as well as the use of, improved aids is regional in scope. Allocation of funds on a country by country program basis therefore appears somewhat unrealistic. A more logical approach might be to earmark sufficient funds from overall aid program funds for the Near and Middle East to permit allocation of monies to country program funds as specific projects are developed and approved. The objective of bringing about improvement of ground aids which are used regionally and benefit the area as a whole would thus be assured without regard to country program planning. In some cases, a facility may be required for use by foreign

carriers operating into a given airport or along a route where only an indirect benefit to the state in whose territory the facility is located can be seen. In cases of this kind, TCA may be reluctant to provide, from country program funds, an allocation to cover the cost of installing the equipment. It is suggested that an administrative decision in Washington to place the carrying out of the program under discussion on a regional basis is desirable.

Given the attitude of suspicion which exists on the part of many Near Eastern States concerning motives behind U.S. Government administered programs of aid, the desirability of channeling assistance toward the development of ground facilities through U.S. airline organizations to the extent feasible might be considered. In this way the air carrier, under contract to the U.S. Government, would undertake to provide the equipment and the necessary installation and training.

Recommendations

1. That the active promotion of associated airline contracts between American air carriers and local and regional airlines in the Near and Middle East be made a policy objective; that, in cases where an associated contract considered to be in the U.S. national interest places a financial burden upon the American company (over and beyond that which, in the case of certificated carriers, can reasonably be viewed as a cost incident to performance under its certificate of public convenience and necessity, or in other cases would otherwise make the association commercially unfeasible) financial assistance be extended by the Government to the U.S. carrier involved.

2. That in cases where U.S. foreign policy objectives would be advanced through the purchase of American manufactured equipment by airlines of the Near and Middle East;

(a) liberal loan terms be made available to the prospective purchaser or seller,
(b) priorities on delivery of new equipment be established,
(c) the manufacturer or seller be encouraged to aggressively promote the sale of the equipment.

3. That a regional program for development of air navigation and communications facilities in the Near and Middle East with U.S. Government assistance be established in its general outlines with funds tentatively allocated to supplement country programs as projects are drawn up and approved for implementation through established country program organizations.

940.53/9-1853

Memorandum by the Deputy Assistant Secretary of State for European Affairs (Bonbright) to the Under Secretary of State (Smith)

SECRET [WASHINGTON,] September 16, 1953.

Subject: Proposed meeting between the Secretary, Secretary Weeks[1] and Secretary Wilson[2] in the latter's office, 2:30, Wednesday, September 23 concerning the wartime control of U.S. merchant shipping.

Discussion:

In August, 1951, a secret agreement was signed by Mr. Lovett and Mr. Sawyer[3] which assured Defense that in a period of emergency the National Shipping Authority would allocate a bloc of normal cargo-type merchant vessels to the Navy for its exclusive use.* This agreement was made without this Department's knowledge and was in conflict with the principle of a single pool of civilian authority controlled NATO war-time merchant shipping agreed to by the North Atlantic Planning Board for Ocean Shipping (PBOS) and concurred by the Council Deputies in January, 1951. At the last PBOS meeting (May, 1952) we were obliged to indicate that some U.S. shipping would not be available to the NATO pool. This reservation resulted in considerable dismay in PBOS as well as in the North Atlantic Council itself.

A few weeks ago Commerce reopened with Defense the question of the control of U.S. cargo merchant shipping in wartime stating their view that it is not desirable for a large claimant on cargo merchant shipping in wartime to control exclusively a percentage of that resource. The Department of Defense in reply has indicated it stands firmly on the earlier Commerce–Defense agreement and will insist on having a bloc of unconverted cargo-type shipping under its exclusive jurisdiction.

This development permits the Department to stress the desirability of alleviating the serious concern which presently exists amongst our NATO partners and the importance of living up to our NATO commitments.

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[1] Sinclair Weeks, Secretary of Commerce.

[2] Charles Erwin Wilson, Secretary of Defense.

[3] Charles Sawyer, Secretary of Commerce, and Robert A. Lovett, Secretary of Defense, during the Truman Administration.

*This agreement also guaranteed to transfer to Defense jurisdiction a number of merchant-type ships (includes *all* existing U.S. passenger ships, many tankers as well as cargo-type vessels) which would be converted or especially adapted to specialized military purposes. This aspect of the agreement is not an issue between the two agencies nor is it in conflict with our NATO commitments. [Footnote in the source text.]

Recommendations:

1. That you attend the meeting in Secretary Wilson's office.

2. That you state the following position during the course of the meeting:

a. In view of earlier U.S. commitments in NATO, it is desirable for this Government to be able to reaffirm in NATO that all its normal cargo-type merchant vessels will be in the NATO pool in time of war.

b. The Department agrees that the Commerce position that a non-claimant agency should control the allocation of cargo shipping resources to both the military and essential civilian wartime claimant agencies has considerable justification on its own grounds.

c. If agreement cannot be reached at this meeting, state that in the PBOS meeting in London October 6, the Department will be obliged to request that discussion of this item on the agenda be postponed.

3. Secretaries Weeks and Wilson will be accompanied by advisers familiar with this problem. It is recommended that Mr. James Swihart, RA, attend the meeting with you.[4]

[Attachment]

SECRET

BACKGROUND OF THE NORTH ATLANTIC PLANNING BOARD FOR OCEAN SHIPPING (PBOS) AND U.S. POLICY IN THAT ORGANIZATION

In June, 1950, the North Atlantic Council created the North Atlantic Planning Board for Ocean Shipping (PBOS). PBOS's terms of reference required it to recommend to the Council principles for wartime control and allocation of member government merchant shipping.

In November, 1950, PBOS agreed to the principles for the control of NATO merchant shipping in wartime including the form of an organization to exercise this control. In brief, these principles state that all member government merchant shipping at the outset of war will be taken over by these governments and placed in a single NATO pool of shipping. The control and allocation of shipping from this pool is to be made by an organization to be called the Defense Shipping Authority (DSA). The DSA is to be a service organization, not in itself a claimant for shipping. Its task is to meet the shipping requirements of both the military and essential civilian war claimant bodies. As a service organization the DSA will not determine major priorities—the latter are assumed to be the responsibil-

[4] No record of the proposed meeting was found in Department of State files.

ity of the higher authority of the war. Although the DSA will be an international body, as a practical matter the real control will rest with the National Shipping Authority in Washington and the Ministry of Transport in London. The executive function of the DSA rests with a small executive board functioning in two branches—to be chaired by the U.S. and the U.K. respectively. In other words, the United States will have absolute control over its own contribution to the pool and at the same time have available to it the shipping resources of all our NATO partners. In brief, the rationale behind these principles is the conviction that it permits more effective and economical employment of a deficit critical resource, for that resource to be controlled by an organization thoroughly qualified technically to do so, but not having any claimant requirements in itself.

The U.S. concurred in the above principles in PBOS in November, 1950, and later again in the NATO Council Deputies in January, 1951. This position at that time had the concurrence of both the Departments of Defense and Commerce. In August, 1951, the Departments of Defense and Commerce without this Department's knowledge entered into a domestic agreement in conflict with our NATO commitments. This agreement assured Defense that in a period of emergency the National Shipping Authority would transfer to Defense a sizable bloc of merchant-type ships which would be under the exclusive jurisdiction of the Department of Defense. There are two categories of shipping involved in this agreement—one of which is not an issue in the NATO nor between Commerce and Defense now. This category includes all merchant-type vessels to be converted to naval auxiliaries, e.g., tankers, submarine tenders, *troop ships*, hospital ships, especially adapted cargo ships for specialized military purposes, such as the carriage of ammunition, beach landings, etc. The second category includes a number of unconverted, civilian crewed, cargo vessels for the carriage of normal-type military requirements. It is the latter group which is the issue.

Despite the embarrassment it would cause this government in NATO, the Department had to agree with Defense and Commerce that a reservation to our earlier NATO undertaking was required. The Department's view at the time was predicated on the agreement of the two agencies primarily concerned that it was to be national policy in wartime for Defense to have under its control in wartime a bloc of normal-type cargo shipping. Therefore, a U.S. reservation was made at the last PBOS meeting (May, 1952). It caused much dissension and the U.S. was requested to review its stand. Subsequently, the same concern was expressed in the North Atlantic Council.

Since the last PBOS meeting the Department has been attempting to find the most palatable method of presenting the U.S. position and an agreement for such a presentation was reached in August between Commerce, Defense, and State. A few weeks ago, however, Mr. Rothschild,[5] the new Maritime Administrator, and Mr. Murray,[6] the Under Secretary of Commerce, informed the Department they no longer agreed to the proposed presentation on the grounds that Commerce itself was no longer in agreement with Defense that the latter should have a bloc of normal cargo-type shipping under its exclusive jurisdiction in wartime. This development, of course, completely alters the premises under which the Department had been acting, i.e., agreement between Defense and Commerce. It affords for the first time since 1951 an opportunity for the Department to assist in the correction of a serious U.S. embarrassment in the NATO.

[5] Louis S. Rothschild.
[6] Robert B. Murray.

911.5200/8-2853

The Secretary of State to the Chairman of the Civil Aeronautics Board (Ryan)

CONFIDENTIAL [WASHINGTON,] September 29, 1953.

MY DEAR MR. RYAN: The Department of State has reviewed the Trans-Pacific Certificate Renewal Case (CAB Docket 5031, et al.[1]) in the light of the existing foreign relations of the United States and has reached the following conclusions which may be of interest to the Civil Aeronautics Board. At such time as the President requests the views of the Department on this case, these conclusions will be re-examined and appropriate recommendations prepared.

With regard to the routes to be served and the certificates to be issued as a result of the Trans-Pacific Certificate Renewal Case, the Department believes it necessary to consider anew the basic issues of whether competition between the United States carriers on international routes should be on the basis of direct competition between points served or should be on the basis of "area competition." In this regard it will be recalled that in the Department's

[1] The Trans-Pacific Certificate Renewal Case involved CAB consideration of the applications of Pan American World Airways and Northwest Airlines for certificates reauthorizing or modifying their services in the Pacific area. The previous certificates expired on varying dates from July 4, 1952, to Dec. 14, 1953. The case also included CAB consideration of Trans World Airlines' application for round-the-world service.

letters of January 22, 1952[2] and May 1, 1952[3] with regard to the North Atlantic Route Review Case strong support was given the concept of area competition. Although the geographic factors involved in the Trans-Pacific Case differ from those involved in the North Atlantic Case, the Department believes that its previously expressed views are generally applicable in this instance as well as in the North Atlantic Case and considers that the principle of area competition should be applied insofar as the geographic and economic conditions permit.

Consideration is also given to the fact that countries in this area are in many instances developing air transport services for which they feel that protection from competition is necessary. When the competition to which they are subjected includes that of more than one strong United States carrier, the fear of competition is multiplied, in some cases out of proportion to the actual or potential effect of the operations performed by United States carriers. The Department believes therefore that the continuation of area competition will more successfully protect United States operating rights and thus better serve the national interest.

The applications of United States carriers in this case request certification for operations affecting India, which is a particularly sensitive area at this time. As is well known to the Board, the Government of India and the Government of the United States have recently held extended consultations in which the Government of India strongly urged the drastic reduction of capacity of United States carriers operating into and through India. The negotiations have now been adjourned without any curtailment of current United States carrier operations into India, but the situation remains in very delicate balance.

The Department understands that the Board, in addition to its examination of the certification of routes which are presently operated by United States carriers in the Far East, also will give its attention to the linking up of Trans World Airlines and Northwest Airlines, thereby creating a second round-the-world service by United States carriers. The Department, after consideration of the foreign relations problems in this field and in view of the objective of maintaining conditions which will enable the United States to sustain an adequate level of air service in the Far East, free of local restrictions, does not believe that a second round-the-world service should be created at this time. The area in which it would be necessary to seek air rights to implement such a service is one which generates comparatively little traffic, and is one which is al-

[2] See footnote 1, p. 395.
[3] *Ante, ibid.*

ready being served by the major trunk operators of the world. Under these circumstances, the introduction of an additional United States carrier would be cause for general resentment compounding the difficulties of obtaining the air rights needed to conduct the services.

However, should it be deemed advisable for economic or military reasons to provide this second service, the manner in which this second service would be accomplished is of considerable importance to United States aviation relations with several foreign countries. First, in view of the extremely delicate state of United States-Indian aviation relations described in a foregoing paragraph, it would be deemed most unwise for the junction to be made in India. In addition, it is believed that the certification of either Trans World Airlines or Northwest Airlines, which would provide a second United States flag service through India on route 2(a) of the Annex to the United States–India Air Transport Agreement, would be of such concern to India that there would be serious danger of the bilateral agreement being denounced by India. On the other hand, it is thought that the use of route 2(b) of the Annex to the Agreement, providing for a junction point outside of India, although disturbing to the Indians, would lessen the possibility of such action. East of Ceylon a second service would also encounter air rights problems, although not of the same magnitude as is the case with India. Certification of service between Ceylon and Singapore would make it necessary to conclude arrangements with the United Kingdom, as such a route is not provided for in the Annex to the Bermuda Agreement. In so doing, it is likely that a *quid pro quo* would be required. If it should be decided to take advantage of route 2(b) in the Indian Agreement, it is assumed that consideration would be given to certification of service to one or more of the principal traffic points of Manila, Hong Kong and Tokyo as a point or points beyond Singapore. The United States–Philippine bilateral includes language which would permit service to and from Manila. Nevertheless, as a practical matter, the Department would anticipate a renewed demand on the part of the Philippine Government for the grant of the right of Philippine Air Lines to serve Tokyo as an intermediate point on its route to the United States, and unless this were granted the United States should expect further aggravation of current differences with the Philippines. Regarding Hong Kong, the Department believes that a *quid pro quo* would be required by the United Kingdom. The use of Tokyo as the junction point of TWA and NWA, i.e., the certification of United States flag carrier service to Tokyo as the end of an Atlantic route, would require an adjustment of the United States–Japan Civil Air Trans-

port Agreement. It is not possible to forecast the difficulties involved in making such an adjustment.

The applications now before the Board in this case request certification for service to points on the China Mainland. The impossibility of serving the China Mainland at the present time is a matter of common knowledge. Nevertheless, this Department believes that the certificates issued to United States carriers should include appropriate points on the China Mainland notwithstanding the fact that it may not be possible to operate to them for a considerable period of time.

The Department makes a distinction between the service in the area which is covered by the Trans-Pacific Certificate Renewal Case considered as a whole and that portion of the area in the vicinity of the China Mainland, where political conditions now permit service by the United States carriers. In this more limited area, where operations are restricted to a relatively narrow corridor determined by the combination of political, economic and geographic considerations, there may be some justification from a foreign relations standpoint, at least on a temporary basis, for expansion of existing operations. It is believed that action on this case should not foreclose such a possibility.

The recent cessation of hostilities in Korea may soon make possible a renewal of operations by civilian carriers to Seoul. It is too early to evaluate the eventual relative value of services to Seoul and Pusan. However, it is believed that since Seoul is the capital, it would be desirable to provide for service to that city at least.

The Department would be reluctant to see two-carrier service from the West Coast to the Orient discontinued as both carriers are now well established and the withdrawal of either might be considered by the Asiatic nations as an indication of declining United States interest in the area. The Department prefers continuance of operations over the North Pacific route instead of the introduction of parallel competition by two United States carriers over the central Pacific route. Although the Department does not believe that the North Pacific route can be justified solely on the basis of the political requirements of the United States, it assumes that the overall interests support its continuance. A routing of Northwest Airlines from the West Coast via Honolulu to Tokyo and Manila would make it exceedingly difficult for the United States to continue to deny the Philippines access to Tokyo as an intermediate point on the Philippine Air Lines route to the West Coast.

The Department, bearing in mind its earlier comment concerning Korea, believes that the certificates to be issued in this case should provide for service to all points now being served by United

States airlines, including Taipei which is a point of considerable importance due to conditions now existing on the China Mainland.

Finally, the following points, in addition to those on the China Mainland and Seoul, have been certificated but are not now served: Mandalay, Hanoi, Palembang, Djakarta, Penang, Kurile Islands, Iwo Jima, Okinawa, Noumea and Melbourne. The Department perceives no foreign relations requirement for service to Mandalay, Hanoi, Palembang, Penang, Kurile Islands, Noumea and Melbourne. It does believe that Djakarta, as the capital city of Indonesia, should be retained as a certificated point. The Department has no interest in certification of service to Iwo Jima but it does consider that Okinawa should be included on a certificated route.

Sincerely yours,

For the Secretary of State:
THORSTEN V. KALIJARVI
Acting Assistant Secretary
for Economic Affairs

940.53/12-1053

Memorandum by the Assistant Secretary of State for European Affairs (Merchant) to the Secretary of State

SECRET [WASHINGTON,] December 9, 1953.

Subject: Proposed meeting between the Secretary, Secretary Weeks, Secretary Wilson and Doctor Flemming[1] concerning the U.S. reservation from the NATO shipping pool in wartime.

Discussion

Ambassador Hughes[2] has reported that the U.S. position that a block of U.S. merchant type shipping will not be available to the NATO pool in wartime has raised serious concern in NATO. This concern arises because it appears that the U.S. is abrogating unilaterally an undertaking to which it had earlier agreed and which was approved at Ministerial level. The U.S. stand threatens not only to break up the shipping pool but has raised a general doubt regarding U.S. preparedness to adhere to its NATO undertakings.[3] Hughes believes this matter may be raised at the forthcoming Ministerial meeting.

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[1] Arthur S. Flemming, Director of the Office of Defense Mobilization.

[2] John C. Hughes, U.S. Permanent Representative to the North Atlantic Council.

[3] A detailed description of the NATO reaction to the U.S. position is contained in the report of the U.S. Delegation to the Fifth Meeting of the North Atlantic Planning Board for Ocean Shipping, held in London, Oct. 6–9, 1953. (940.53/11-3053)

[Here follows discussion of the background and history of the North Atlantic Planning Board for Ocean Shipping.]

From our standpoint this problem has been most unfortunate for our NATO relationships. It has been particularly unfortunate because in our view it is not necessary to make a reservation from the pool in order to assure U.S. military objectives. . . .

The reasons Defense have given for not believing its objectives can be met under PBOS are summarized in Tab B with our comments. Although never stated, we believe Defense is not so afraid to be dependent on an international pool of shipping—as it is aware the U.S. will control its contribution—so much as it does not wish to be entirely dependent on a U.S. civilian government agency for its requirements.

Recommendations

(1) In view of earlier U.S. commitments in NATO, it is desirable for this Government to be able to reaffirm in NATO that all its normal cargo-type merchant vessels will be in the NATO pool in time of war.

(2) If U.S. inter-agency agreement along lines of recommendation No. 1 is impossible at this time, we recommend another policy review to determine whether it is really essential to make any U.S. reservation and that the Delegation be authorized to indicate that this review is taking place at the forthcoming Ministerial meeting.

(3) The presently agreed inter-agency working level position that the U.S. is examining the numbers and character of ships it intends to withhold and will report this information to PBOS, does not suffice in view of the anxieties expressed in the Permanent Representatives.

[Tab B][1]

SECRET [UNDATED.]

LIKELY PRINCIPAL DEFENSE POINTS CONCERNING THEIR NEED TO HAVE EXCLUSIVE JURISDICTION OF A BLOC OF NORMAL CARGO-TYPE VESSELS IN TIME OF WAR. COMMENTS REGARDING THESE POINTS FOLLOW

I. U.S. Emergency War Plans Necessitate Assurances that a Percentage of the Military Shipping Requirements be Carried in Vessels Controlled by the Military.

Although Defense reasoning here is not entirely clear, it seems in part to be based on a need for "speed" at the outset of an emer-

[1] Tab A, a paper describing the background and history of the PBOS, was not found with the source text.

gency and an assumption that civilian agencies will be "slow" in meeting military needs. There is also a feeling that the DSA (the NATO planned Defense Shipping Authority) cannot become an effective machinery until several months after the outbreak of a war. Actually these fears are groundless. Under the PBOS plan there is an interim plan (assumed to be 90 days) when National Shipping Authorities are to act in the name of the DSA. During this period the U.S. National Shipping Authority could allocate the *entire* U.S. merchant fleet to the Department of Defense if it desired. When the DSA machinery is set up, all allocations made by national authorities become in effect DSA allocations.

II. Defense Does not Believe it Desirable to be Dependent on an "International Body" for its Shipping Requirements.

. . . [The executive functions of the DSA rest in two Executive Boards—one chaired by London—the other by Washington.][5]

III. Defense Points to US Non-NATO Military Commitments as Grounds for Requiring Exclusive Jurisdiction over a Bloc of Shipping Tonnage.

This argument is also without much substance. If U.S. non-NATO military commitments must be fulfilled and the NATO alliance has not been invoked, then the DSA will *not* come into existence and there is no problem from a Defense standpoint.

There is only one condition under which the DSA would come into being—and that is if there is a global war of World War II dimensions. Although PBOS is a NATO body, it has planned "on a global basis." Its plans provide for the admittance to the DSA of all friendly belligerents. It is assumed the British Commonwealth countries will be members. In fact it is unlikely that there will be any appreciable friendly shipping outside the pool. The DSA is set up to meet both the military and civilian wartime requirements on a world-wide basis.

IV. Defense Will Stress the Need for Large Blocs of Shipping to Meet Specialized Military Objectives (Such as the North African Invasion in World War II).

The PBOS plans to allow "bloc allocations" as opposed to single-voyage allocations whenever military exigencies require it.

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[5] Brackets in the source text.

940.53/3-954

The United States Permanent Representative to the North Atlantic Council (Hughes) to the Assistant Secretary of State for European Affairs (Merchant)

CONFIDENTIAL [PARIS,] March 9, 1954.

DEAR LIVIE: I am very much disturbed about developments in connection with the US reservation with respect to the commitment of merchant vessels to the PBOS–DSA pool. Knowing that you share my concern and that you have been good enough to follow the matter personally, I am taking this subject up with you again.

My latest information is that the Defense Department has come up with a figure of . . . "notional ships" in response to the Fleming request for an estimate of the number of vessels it would be necessary to keep out of the pool, in order to meet the Defense Department's requirements. I am sure you agree with me that this is most unsatisfactory and that a US position based on such a figure would probably lead, not only to the dissolution of the shipping pool, but also to a loss of confidence in US–NATO commitments, which would be most unfortunate, particularly at this time. I understand that you propose to discuss this with Frank Nash,[1] and in all probability you may have already done so. Since, however, Frank has resigned, it will doubtless be necessary to have further conversation with others, and I don't want you or anyone else in Washington to think that our silence on this matter during the last number of weeks has meant any reduction in the importance of a satisfactory solution of this issue.

This matter has not been mentioned in the Council lately. I am sure, however, that this is because our NATO partners are hoping that, given a chance for a careful calm assessment of the problem, without pressure from them, the US will find a solution all can accept. Basically, I am quite certain that the feelings of the Council are just as strong as those outlined by me in my cable sent November 19, Polto 856,[2] and my further cable of December 3, Polto 957.[3] To repeat, I do not recall a single issue which seems to have aroused more widespread anxiety on the part of my colleagues than has been exhibited as a result of the US position on this matter. Although dormant, the anxiety is genuine, for reasons which have previously been expressed. It will, I fear, be reflected in

[1] Assistant Secretary of Defense for International Security Affairs, Feb. 10, 1953–Feb. 28, 1954.

[2] Not printed. (740.5/11-1953)

[3] Not printed. (740.5/12-1253)

a serious disintegration of NATO morale, if there is no change in the US position as last reported to us.

When we received Topol 679, dated December 12,[4] addressed to the attention of Merchant and Moore,[5] I was hopeful that by March 1 the US would come up with some solution which would prove generally acceptable. Such information as we have received indicates that that is far from being the case.

Sincerely,

JOHN C. HUGHES

[4] Not printed. (740.5/12-1253)

[5] Ben T. Moore, Director of the Office of European Regional Affairs.

Secretary's Staff Meetings,[1] lot 63 D 75

Memorandum of Conversation, by the Director of the Executive Secretariat (Scott)

SECRET [WASHINGTON,] April 23, 1954.

Subject: Summary of Acting Secretary's[2] Staff Meeting, 9:15 a. m., Secretary's Office

[Here follow a list of the 16 participants and a brief reference to a report on intelligence developments.]

2. PBOS Meeting.

The Acting Secretary stated that at this meeting yesterday he felt that we were out numbered and that our case was not too good. The military had insisted that on D-Day they should have control of 25% of U.S. military tonnage requirements. He stated that he had presented our case as best he could but he felt that the military were probably correct; that on D-Day this was a minimum requirement of supply tonnage to have under military orders; that commercial shipping was not satisfactory as officer and crew were not required to go into combatant waters.[3] He also stated that the PBOS planning for D-Day plus 24 months was completely unrealistic, as no one could see that far into the future and it should be abandoned. In reply to Mr. Bonbright's statement that this was to our advantage because it gave the British and ourselves control of merchant shipping far greater than that given to us unilaterally,

[1] The Secretary's Staff Meetings were held several times a week during the period 1953-1961. Usually presided over by the Secretary, these meetings dealt with a wide range of policy questions. The Under Secretary of State, Deputy Under Secretary, Assistant Secretaries, and various office directors also attended the meetings.

[2] Walter B. Smith.

[3] At this point in the source text appears an illegible, crossed-out word. Inserted in its place, uninitialed, is the word "waters".

both The Acting Secretary and Mr. Murphy[4] replied that experience of the last war in dealing with the British in shipping matters would lead them to believe that the military were still right—that we had always come out on the short end of the stick when dealing with the British in this field.

[Here follows discussion of a Coal and Steel Community loan and Indochina.]

[4] Robert Murphy, Deputy Under Secretary of State.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

SECRET WASHINGTON, May 11, 1954.
Issue No. 441

. . . . . .

Review Completed of US Aviation Policy

In accordance with a request from the President of last September, the US Government's basic policies related to civil aviation have been reviewed in the light of our national objectives. The review, prepared by the Air Coordinating Committee, was delivered to the President April 30 and is expected to provide policy guidance to executive agencies in testimony before the Senate Interstate and Foreign Commerce Committee on Senator McCarran's redraft of the Civil Aeronautics Act, 1938, in hearings that are scheduled for mid-May.

The new policy statement says that there must be a continuing expansion of our air services and their supporting base to keep pace with our economic growth and our responsibilities as a principal world nation. For this task, the resources and initiative of private enterprise are essential. The goal of federal policies at this time should be directed to the development of economically healthy carriers, capable of financing with private resources their own continuing growth.

The sections of the report of most concern to the Department are those dealing with air transport rights, exports of aircraft and other aeronautical material, movement of US mail on foreign carriers, subsidies, air routes, aviation technical assistance, and relations with the International Civil Aviation Organization. This article deals principally with the international aspects of the policy review.

International Aviation Agreements. The review recognizes the importance of operations abroad of US airlines for our commercial needs, for postal service, and for our national defense. In general, it endorses the policies that we have been following in the international aviation field. It points to the forty-five bilateral aviation agreements which we have with other countries and states that the exchange of air transport rights will continue to be by bilateral agreement until such time as it is possible to achieve a multilateral agreement which contains principles generally in accord with those of existing US bilateral agreements.

The US will continue to adhere to the policy of negotiating for international air rights on the basis of all five freedoms, according to the new policy statement. The five freedoms are: first—right of an aircraft to fly across the territory of a foreign country without landing; second—right of an aircraft to land for non-traffic purposes; third—right to carry traffic from country of nationality of aircraft to another country; fourth—right to carry traffic from a foreign country to country of nationality of the aircraft; fifth—right to carry traffic from point of origin in one foreign country to point of destination in another foreign country. The US has regarded the enjoyment of all these rights as essential to economic operation of international routes, to the fullest development of air transport services, and in the interest of the traveling public. All bilateral air transport agreements negotiated by the US since the latter part of 1944 have been based on the exchange of the five freedoms.

Since the conclusion of the Air Transport Agreement with the UK at Bermuda in February 1946, the US has adhered to the basic principles which were established in that agreement. These include standards for relating capacity to traffic on an *ex post facto* basis, taking into consideration the public requirements for air transport service, and the requirements of both trunk line operations and local or regional operations. They also include certain provisions, designed as safeguards to the airlines of both contracting parties, such as the declaration that capacity shall bear a close relationship to traffic demands, that the airlines of both countries shall have a fair and equal opportunity to operate the routes for which they are designated, and that the airlines of one country shall take into consideration the interests of the airlines of the other country so as not to affect unduly the other's services. The policy statement says that in negotiation of agreements for the exchange of international air rights, the US will continue to adhere to the Bermuda principles as the most satisfactory for relating capacity to traffic. In determining the routes to be included in bilateral agreements, the US

will continue its objective of establishing, insofar as possible, an equitable exchange of economic benefits.

Essentially, the network of bilateral air transport agreements has now expanded to the point at which world-wide services are possible, and the conclusion of additional agreements will serve to augment and regularize the system rather than to establish the basic requirements necessary to begin operations. Therefore, while new agreements may be concluded from time to time, it is expected that the most outstanding developments will consist in their application and interpretation in relation to operations under them. The US will seek interpretation and application of its agreements in a manner which will accord with the over-all objectives of an effective international air transport system.

The policy also states that the US should seek to arrange long-term rights for use by US civil and military aircraft of foreign bases which have been constructed or improved with US funds.

Fares and Rates. The International Air Transport Association (IATA), an organization consisting of most of the international air carriers of the world, presently serves as the primary instrument for establishing and maintaining the highly complex structure of international fares and rates. The new policy states that full US support should be given to the IATA as the primary instrument for establishing and maintaining sound fare and rate structure for international air services. However, US reliance on IATA should be supplemented by governmental authority, which is currently lacking, to resolve rate problems resulting from the inadequate functioning or the absence of IATA machinery. Therefore, the new policy states that the Civil Aeronautics Board should be empowered by Congress: a) to control the fares, rates, rules, and practices of the US air carriers, applicable to transportation to and from the US, to the same extent as the Board now has power to act with respect to domestic air transportation; and b) to control the fares, rates, rules, and practices of foreign air carriers, applicable to transportation to and from the US, more effectively than is now possible under the Civil Aeronautics Act.

Participation in ICAO. The new policy statement says that the accomplishments to date of the International Civil Aviation Organization (ICAO) have fully demonstrated the need for continuance of cooperative efforts in fostering the development of international civil aviation. Therefore, the US should continue to support ICAO and propose that its future activities be consistent with the following objectives: a) development of additional international standards, recommended practices, procedures, and regional plans for facilities and services, when necessary for safe and efficient international air navigation, emphasizing implementation of standards

and regional plans by ICAO members; b) progressive development and implementation of ICAO's program for the facilitation of international civil aviation; c) collection and distribution of information in the field of air transport economics; d) adoption of conventions on needed international air law; e) administration of joint support projects for international financing of essential international air navigation facilities and services. However, the number and duration of meetings of the ICAO Council and its subordinate bodies and the workload of the organization should be reduced with consequent budgetary economies.

International aviation traffic is such that national regulations and procedures governing entry, transit and exit must be simplified to the maximum extent consistent with national security. The US has worked with other nations in the ICAO to establish uniform standards and recommended practices governing border crossing formalities in order to expedite this traffic. The policy statement reiterates continued US support of this facilitation program.

Safety and efficiency of operations over international air routes require a system of aids to air navigation based on "common system" concepts. The policy states that the US will, to the extent practical, continue to provide in the US and its territories and areas under its control, airports, facilities, and related services required to facilitate international air navigation, in accordance with ICAO standards and recommended practices. The US will stress the obligations of ICAO member nations in this regard and give support to all practical efforts by other nations to provide such facilities and services.

Export and Import of Aircraft and Equipment. The policy points out that it is in the national interest of the US to sell civil aircraft and other aeronautical equipment to purchasers in friendly foreign countries. If the manufacture and supply of aircraft become critical because of a shortage of materials necessitating the use of a priority system, civil purchasers of aircraft and parts in friendly foreign countries should receive substantially equal treatment to that accorded US civil purchasers. Likewise, the export sale of available military aircraft and related equipment to friendly nations is desirable and to be encouraged as much as possible, consistent with military requirements and international policy. Each application by a manufacturer to release his military aircraft products for sale abroad must be considered on its merits and in the light of the article's importance to national security. To encourage and facilitate the sale of aircraft and related equipment abroad, the Eximbank, in appropriate cases and where necessary, should continue to make loans and to guarantee loans made by others for the purpose of financing such sales.

The policy also points out that the US favors the development of international trade and proposes to keep its market open to competitive foreign aircraft and equipment which meet US levels of safety as a valuable and necessary corollary to a healthy, expanding market for US aeronautical equipment abroad. To accomplish this objective it is believed that the following measures should be taken to permit readier access by foreign manufacturers to the US market for this equipment: a) expansion of the program of patent arrangements and exchange of licenses between US and foreign manufacturers; b) agreements for mutual recognition for import and export purposes of airworthiness certificates for aeronautical equipment; c) elimination or reduction to a minimum of tariff rates and avoidance of unnecessarily burdensome taxation and regulations on foreign-manufactured aviation equipment.

Subsidies and Routes. The policy recommends termination of subsidies to the aviation transport industry in an orderly manner and the merging of trunk lines into fewer systems, thereby eliminating uneconomic operations. It recognizes, however, that in some cases it may be necessary to continue subsidy for an indefinite period to preserve a service which is essential in the national interest and which cannot be provided feasibly on a non-subsidized basis. Thus, foreign competition and other special factors will probably prolong the period during which subsidy will be required for international air transport operations. These cases must be very carefully considered, however, not only to determine whether the service itself is sufficiently essential to justify federal support, but also to determine whether the service can be rendered by other US carriers with less or no subsidy.

Because of the distances involved and lack of adequate high speed surface transportation, US territories are dependent upon air transportation for rapid communication, but in many instances are unable to generate sufficient traffic to support self-sufficient air transport operations. Under these circumstances, too, uneconomic duplication in services must be avoided or eliminated.

National interest factors require that many international routes be maintained, despite subsidy requirements. The policy review points out that in large part, the present international route pattern was established at a time when there was relatively little experience with the economic characteristics of international air service. At that time it was not generally expected that foreign flag operations would provide the degree of competition which has actually developed. It was therefore thought necessary to certificate competitive US flag operations for the purpose of assuring adequate attention to the needs of the traveling public, and development of efficient and economical service. Actual financial experi-

ence of international operations has proved to be considerably less favorable than was originally anticipated. In all areas, competition has greatly increased and on some routes traffic has not developed sufficiently to support economical frequency or load factors. As a general policy, it is desirable in the public interest that competition between US flag carriers be maintained in areas where traffic is sufficiently dense so that competition can be economically supported. However, where such is not the case, it is difficult to justify subsidy expenditures in terms of the public benefits to be derived. Under the present pattern of US flag international operations, no general improvement in the dependence on subsidy support is anticipated in the foreseeable future. In view of this fact, and the continuing increase in the effectiveness of foreign competition, the policy states that it is necessary at this time and continuously to review most critically the justification for maintaining the present pattern of competition between US carriers on international routes. Route decisions in this area should recognize the necessity of avoiding or eliminating uneconomic duplication of service between US carriers.

Aviation Mobilization Planning. The policy paper recognizes the importance of mobilization planning on a continuing basis and in sufficient detail to achieve a high level of readiness so that available civil airlift capacity will be ready to augment military air transport and support the war program immediately should there be an outbreak of war. It also states that international mobilization planning is desirable to establish coordinated principles and policies which could be applied uniformly insofar as possible by allied states to their wartime civil air transport operations in order to enhance their effectiveness in a mutual war effort and to assure orderly resumption of normal commercial operations in accordance with prewar commercial rights.

Other Items. The policy endorses the principle that US mail will be transmitted internationally on the most convenient and expeditious schedules utilizing the services of foreign as well as US air carriers.

The US currently extends technical and economic cooperation to friendly nations for the improvement of safety and efficiency in civil air operations. We do this directly through the executive agencies and indirectly through participation in the aviation technical assistance programs of the UN, administered by ICAO. Within the limits of funds available and consistent with our international interests, the policy statement declares, the US shall continue such assistance with full coordination between the programs conducted by the US and those conducted by ICAO.

The policy statement also says that the US should continue to provide the aeronautical communication services for international aviation operations within areas under US jurisdiction, where as a contracting state of ICAO it has accepted such responsibilities, and that this shall be on the same basis for foreign aircraft as for US craft. Likewise, it is to seek to assure, principally through the ICAO machinery, that our civil aircraft are provided aeronautical services on the same basis as are provided for foreign aircraft by the US.

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S/S-NSC files, lot 63 D 351, "U.S. Civil Aviation Policy—U.S.S.R. and Satellites"

Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Lay) [1]

SECRET [WASHINGTON,] May 12, 1954.

Subject: Fourth Progress Report on Implementation of NSC 15/3, entitled: "United States Civil Aviation Policy Toward U.S.S.R. and Its Satellites."

Part I

No significant actions have been taken with regard to the policy since the progress report of November 4, 1953.[2] It can be noted, however, that in view of steps taken by the Czechoslovakian Government to remove the causes for which a restriction on flights of the Czechoslovakian airline, CSA, over the territory of the German Federal Republic was originally imposed by the Occupying Powers, the United States and France are prepared to lift this ban. CSA was contained by a policy decision outside the provisions of NSC 15/3, and the lifting of the restriction will not affect implementation of the basic policy.

Part II

Execution of the policy has been effective. There have been recent reports of a Russian desire to facilitate air travel between Eastern and Western Europe through interline arrangements between the Russian airline, Aeroflot, and Western air carriers. These arrangements would involve direct connections at border points and through ticketing, but the routes of the flag carriers would remain unchanged. Therefore, such arrangements are not

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[1] A cover sheet is not printed.

[2] No report as identified herein was found in Department of State files; for the third progress report on NSC 15/3, dated Feb. 9, 1953, see p. 407.

expected to affect adversely the objectives of NSC 15/3, which are still considered desirable.

JOHN FOSTER DULLES

Eisenhower Library, White House Central files, Confidential file

Memorandum by the Chairman of the President's Advisory Committee on Government Organization (Rockefeller) to the President [1]

CONFIDENTIAL WASHINGTON, August 9, 1954

Subject: Telecommunications Policy and Organization

Introduction

Your Committee has recently considered the existing organization of telecommunications functions in the Government and after consulting with several Government telecommunications experts, brings to your attention certain problems, considerations and recommendations which have a vital bearing on the national security. In the cold war kind of world, adequate, efficient and rapid telecommunications to support and mobilize the economic, political and social complexes of the free world may be a crucial factor in the success of any military effort.

Problems and Considerations

Our consultants, in their preliminary analysis of the telecommunications situation, point up the following problems and considerations:

(1) The Soviet Union has developed telecommunications as a positive instrument of its national and international policy and uses telecommunications as a key weapon in controlling its peoples and for subversion and propaganda abroad. The communists are capable of disrupting our present vital, long-range high-frequency radio communications at any time.

(2) The United States, on the other hand, has not organized and utilized its telecommunications resources in a fully effective manner in its struggle with world communism. Our basic telecommunications policies, which have not been significantly revised in twenty years, were set down in a period when our position in the world and world conditions were quite different.

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[1] Forwarded to the President under cover of a memorandum by Rockefeller and Rowland R. Hughes, Director of the Bureau of the Budget, dated Aug. 9, stating that the memorandum on telecommunications policy was prepared with the assistance of government communications experts, and in cooperation with the Bureau of the Budget, and cleared with the President's assistant, Sherman Adams. A handwritten notation on the covering memorandum, initialed by President Eisenhower, reads: "Approved in principle." Regarding the Rockefeller Committee, see footnote 4, p. 231.

(3) Our telecommunications policies have not been altered in face of the changed economic, political and military situation and, indeed, appear to ignore the importance of telecommunications in the struggle against world communism. (See Appendix, *Paragraph A*, for Illustration.[2])

(4) We lack a cohesive, up-to-date national telecommunications policy, geared to the realization of over-all U.S. objectives. As a consequence, each agency, public and private, proceeds largely in its own manner to discharge its agency mission or serve its company interest.

(5) These conditions have weakened this country's telecommunications position internationally. Many foreign nations have been able, through state ownership or control over telecommunications, to exploit to their own advantage competition between U.S. companies.

(6) Lack of a comprehensive U.S. telecommunications policy has led to contradictory Government treatment of various segments of the telecommunications industry. (See Appendix, *Paragraph B*, for Illustration.)

(7) There is evidence that technological developments in telecommunications, brought about largely at U.S. Government expense, are not being applied and utilized on a broad basis in the over-all national interest. (See Appendix, *Paragraph C*, for Illustration.)

(8) The Communications Act of 1934, which is the basic expression of U.S. communications policy, is deficient in the following respects:

(a) The policy and organizational philosophy of the Act assumes the existence of only two alternative situations—peace or war. The Act contemplates no intermediate situation such as the current cold war, and therefore, leaves unclear the legal basis for developing over-all policies and organization for mobilizing private and Government telecommunications resources in the prosecution of national objectives in the cold war. (See Appendix, *Paragraph D* for Illustration.)

(b) The Act in giving control of use of the radio spectrum within the U.S. to two authorities—(1) to the Federal Communications Commission, which licenses private use of the spectrum, and (2) the President, who is responsible for Government use of the spectrum—does not provide an adequate or satisfactory basis for resolving conflicts between Government and private use of radio frequencies. (See Appendix, *Paragraph E* for Illustration.)

(9) The Government's present telecommunications organization appears to have resulted from piecemeal attempts over the years to resolve particular crises and conflicts. Since World War II, national and international telecommunications problems have become more numerous, complex and acute and our telecommunications organization has, to a large extent, been inadequate to cope effectively with these festering problems. (See Appendix, *Paragraph F*, for Illustration.)

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[2]Appendix is not printed.

(10) In this situation, the Office of Defense Mobilization in 1953 was given authority to advise and assist the President on telecommunications. It has adequate authority to deal with most of the mobilization aspects of telecommunications on an interim basis, and to deal with day-to-day problems in connection with Government radio frequencies. Despite severe staff limitations ODM is making increasing progress in finding an interim solution to some of the more acute problems.

Conclusions

Your Committee concludes:

(1) That present telecommunications policy and organization are ill-suited to serve U.S. requirements in the current world situation;
(2) that it is imperative that this crucial subject be given a careful, comprehensive examination with a view to developing recommendations to provide for the U.S. an up-to-date, well-integrated national telecommunications policy and supporting organization consistent with both Governmental and private needs, and
(3) that, pending the completion of this comprehensive study, the telecommunications activities of the Office of Defense Mobilization should be given all possible support and assistance by the Executive Branch.

Recommendation

Recommendation No. 1—

A Cabinet Committee consisting of the Director of the Office of Defense Mobilization, as Chairman, and the Secretaries of State and Defense as Members, should be established to explore and formulate national policy and organizational recommendations covering the field of telecommunications.

In addition, the Secretaries of the Treasury and Commerce and the Directors of the U.S. Information Agency, the Bureau of the Budget, the Foreign Operations Administration, and the Central Intelligence Agency, should serve as *ad hoc* participating members on particular matters of respective concern to them. Your Advisory Committee will be glad to cooperate whenever possible.

The Cabinet Committee should establish effective liaison with the Federal Communications Commission, with due regard for that Agency's particular functions and responsibilities. The Cabinet Committee, with the advice and assistance of the Director of the Bureau of the Budget, in working out the necessary administrative arrangements, should secure for this project such staff and technical assistance as may be necessary to accomplish its task.[3]

NELSON A. ROCKEFELLER

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[3] The President established a Cabinet committee on telecommunications policy in late August.

940.5260/8–1054 : Instruction

The Secretary of State to the Embassy in the United Kingdom [1]

SECRET WASHINGTON, August 10, 1954.

990. Subject: Implementation of NSC 15/3. The Department notes the types of questions that have arisen in your discussions with the British authorities over the implementation of NSC 15/3. Deptel 210 to Bonn of July 22, copies to London 458,[2] it is hoped will clarify U.S. views. However, in order that the Embassy may be more specifically informed of the Department's position there are cross-referenced below replies to the itemized questions contained in Embassy's Despatch No. 4220.[3]

1. Department's Telegram 6964 of June 18 [4] was not meant to preclude eventual operation of reciprocal services between Paris and Moscow. NSC 15/3 states that reciprocal arrangements should be sought "when it has been clearly determined, on an individual basis, that a fully realizable balance of advantage would result from such services to the United States or the non-curtain country concerned after careful evaluation and weighing of the civil aviation, economic, political and military security considerations involved." Such a balance of advantage may at some time exist, but no views to this effect have yet been expressed.

It was determined, however, when NSC 15/3 was adopted that a balance of advantage to the West did exist in the aviation arrangements then in effect between Czechoslovakia and certain non-curtain states. Therefore these were left undisturbed at that time. Since the reasons for the interim suspension of CSA operations to Western Europe have now been eliminated, the Department sees no adequate reason for not reverting to the *status quo ante* and resuming permission for the overflights. Deptel 3092 of December 10, 1953 [5] outlined support for this position.

2. It has been established that some special air service to Warsaw by a Western state is extremely important. The most favorable arrangement yet found possible is the RAF courier service. As the Embassy is aware, even this operation has been precariously close to summary suspension, and the Department has been reluctant to suggest disturbing this delicate situation lest a more unsatisfactory situation would result. It is likewise apparent that enforcement of the NSC 15/3 policy is far more difficult in the Scandinavian coun-

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[1] Drafted by Snowden. Repeated for information to Paris, Rome, Moscow, and Prague.

[2] Not printed. (949.5240/7–1454)

[3] Not printed. (651.6194/6–3054)

[4] Not printed. (949.5200/6–1654)

[5] Not printed. (949.5200/11–2353)

tries and the satellite operations in this area cannot in all instances be tied to the principles of NSC 15/3.

3. Sabena and KLM services to Prague provide a reliable communication across the curtain and are considered to produce benefits. It was partially because of the existence of alternative services that Pan American was permitted to suspend its services to Prague.

4. The Department and the Department of Defense are conducting a review of U.S. policy with regard to civil operation of turbine-powered aircraft. Under current policy, the United States would certainly disfavor use of these aircraft across the curtain, but a final answer to the Embassy's question must await completion of the policy review.

5. NSC 15/3 states that each situation arising under this policy should be treated "on an individual basis." Therefore, the Department does not believe it is possible to set standard conditions that would be acceptable in all instances. However, the United States as a general principle is in favor of Western airline penetration of the curtain countries if this can be accomplished without reciprocity. If reciprocity is involved, then the balance of advantage must be assessed. The Department therefore cannot advise the Embassy on the desirability of discouraging negotiations by Western airlines for air rights in curtain countries until the terms of the negotiations are known.

Since the Embassy indicates that such questions as these have been raised, the Department would be interested in knowing what comments have been made and in particular what the British views currently are.

DULLES

E/TRC/AV files, lot 59 D 206, "Middle East—General 1945–1954"

Memorandum by the Civil Air Attaché for the Middle East (Thayer) to the Officer in Charge of Lebanon-Syria Affairs (Allen) [1]

CONFIDENTIAL [BEIRUT,] December 15, 1954.

Subject: Civil Aviation—Near and Middle East

[Here follows discussion of proposed expansion of the duties of the Civil Air Attaché.]

The relative importance of air as compared with surface transport in this area, the underdevelopment characterizing the region, and its strategic location in terms of global air routes has meant that aviation problems of concern to the United States fall into two

[1] Francis O. Allen.

major categories; namely, (1) air transport development within the area, and (2) problems of securing U.S. air rights in the area.

Air Transport Development

The air transport system is characterized by: (a) Inadequate aviation facilities in terms of navigational aids, communications facilities, etc. Existing facilities for the most part were constructed by military forces during the last war. The governments of the area have been faced with difficult problems in maintaining existing facilities and in trying to keep pace with the growing requirements for modernized facilities. In their efforts the local governments have been hampered by (1) inadequate Civil Aviation Department staffs, both in terms of numbers and qualifications, (2) inadequate budgets, and (3) inability largely for financial reasons to make the long-term plans required to meet present day requirements for facility development. A regional plan, backed by sufficient funds for its implementation has been recommended to the Department and FOA, however it has not been implemented to date. A regional rather than country-by-country program seems essential.

(b) An airline system which is comprised of far too many individual carriers in relation to the air traffic potential. This in turn has led to the imposition of government restrictions on air operations as between the various countries, which in turn creates an economic situation which discourages the introduction of more modern, larger capacity aircraft to replace the existing fleets of war surplus DC–3 type equipment.

(c) Air carriers which are in the main under-capitalized and without sufficient financial resources to meet the cost of acquiring modern aircraft.

(d) Absence of effective government regulation and an effective program of inter-governmental coordination in the field of aviation policy permits unregulated cut-throat competitive practices to the detriment of sound economic operating practices.

(e) Management and Operational staffs are to a large extent insufficiently trained to conduct an efficient, safe operation approximating Western standards.

(f) The lack of an indigenous logistics base for the air transport system, plus some of the other factors above mentioned, including dependence upon foreign sources of supply for material, aircraft, and technical skills, has meant that foreign interests are associated to a large extent with nearly all of the airlines of the area. British, French, and American influence has been predominant. The political and strategic importance of the area to the big powers, and the relative importance of air transport in the area have at times led to competitions between these powers to maintain and/or increase

their influence in regional air transport. At the present time, American interests are associated with Ethiopian Airlines (TWA management), Saudi Arabian Airlines (TWA technical operations), Air Jordan (Trans-Ocean financed affiliate), Middle East Airlines (36% PAA), Iranian Airways (Trans-Ocean management).

The British appear to have an overall plan for increasing their influence in aviation in this area, probably as the result of developments in Iran and Egypt. Several airlines under British control have been merged and there is evidence of an all-out attempt by the British to replace PAA in Middle East Airlines—a move which if successful would give the British a group of associated airlines circling the Near East.

A beginning has been made toward a coordinated American program of assistance for the development of regional air transport in this area. FOA has established an Air Staff and is currently engaged in efforts to work out management contracts between American carriers and DHY, the Turkish carrier, increased assistance to Iran Air, and a management contract with Pakistan International Airlines. Discussions have also been had relative to the negotiation of a management contract between TWA and MISR Air in Egypt, support for loan assistance to Ethiopian Airlines, and the establishment of a regional heavy aircraft overhaul base at Beirut, together with a regional aeronautical training school.

Air Rights

The situation with respect to U.S. air rights in this area is relatively stable and satisfactory. An air agreement with Iran is under negotiation. The most difficult problem had been in Iraq, where, after eight years we have not succeeded in obtaining an agreement without a prohibition on fifth freedom rights between Baghdad and other points on PAA's routes. Capacity problems of a serious nature have not arisen under existing agreements to date.

102/12-2254

Memorandum by the Staff Director of the Cabinet Committee on Telecommunications Policy and Organization (Clark) to the Members of the Committee

SECRET WASHINGTON, December 22, 1954.

Subject: Transmittal of Draft Report

There is attached a draft of a report for consideration of the Committee. The first six pages of the draft are essentially a condensation of the briefing presented on December 13. The balance is concerned with draft statement of objectives, recommended poli-

cies, and the action programs and organization believed necessary to implement the objectives and policies.

This draft represents a very broad and aggressive approach to the entire problem. However, I believe that some such approach is necessary to protect the national interest and further the national objectives.

The draft is based on about six weeks' intensive study of this problem by our staff, but it essentially embodies the combined experience of about one-hundred years of private, military and Government experience at all levels in telecommunications and directly related problems which have been brought together within our staff. We submit the draft for the consideration of the Committee.

As indicated, we have prepared twenty copies, but the copies to the members of the Committee and one copy to the Assistant Director for Telecommunications, ODM, are the only ones which have been permitted outside of our staff group.

RALPH L. CLARK

[Attachment]

Draft Report of the Cabinet Committee on Telecommunications Policy and Organization [1]

[Extract]

SECRET & PRIVILEGED

Introduction

The President, by letter of August 26, 1954,[2] appointed us as a Committee to review the existing body of telecommunications legislation and policy and implementing organization and to prepare recommendations for the consideration of the President.

The guidelines of our work as laid down in this letter were:

1. To consider this task as a matter of urgency.
2. To take a broad approach which comprehends the over-all needs of the nation and understands the special problems and capabilities of all forms of telecommunications.
3. To view the problems of telecommunications as elements of a broad requirement that the U.S. have a comprehensive up-to-date national telecommunications policy which will be consistent with

[1] The source text bears the following typewritten statement: "Staff Draft No. 2, 20 December 1954, as revised January 3, 1955." Discussion concerning domestic telecommunications matters in the draft report is omitted.

[2] Not printed; a copy is in Eisenhower Library, White House Central files, 1953–1961, Confidential file.

the broad public interest and directly contribute to the realization of national and international objectives of the U.S.

4. To make sure that the Government provides effective leadership in assuring that our national telecommunications policy and programs help enable our public and private telecommunications organizations to play their proper roles in strengthening the economic, social and political bonds of those ..tions which share with us the desire for peace and progress.

It was suggested also that the primary objectives of this study would not require us to devote time or attention to the domestic broadcasting services.

In response to these instructions, the members of the Committee have examined existing telecommunications legislation, policies, practices, facilities and organizations. We have drawn freely upon the many studies, publications and official Government reports dealing with this subject. Liaison was established with the Chairman of the Federal Communications Commission, and with those agencies of the Executive Branch of the Government concerned with communications, largely through the Office of the Assistant Director for Telecommunications, Office of Defense Mobilization.

Throughout the course of the study, the Committee and its staff have kept in close touch with the Office of Defense Mobilization to the end that the work of the Committee would not interfere with or impede the discharge of urgent responsibilities of the Office of Defense Mobilization in the field of telecommunications. The Committee had before it a report by the President's Communications Policy Board, March 1951, which embodied the views of the industry leaders as of that date on many of the specific problems under consideration. Western Union and RCA have also informed the Staff of their current views with respect to these problems. The Chairman plans to meet with industry leaders to obtain their current views during the week of January 10th.

The Committee has made an assessment in a general way of the importance of telecommunications to the nation.

The central question is whether or not the strategic capabilities of telecommunications shall be employed by and for the nation as a whole or whether telecommunications is to continue as a fragmented service provided by and for each separate agency of Government and for the public by competing private organizations.

If telecommunications is to be provided on an agency and company basis, the problems of concern to the Government are few and relatively simple. They involve public regulation and international resource management of the use of the radio spectrum.

The force of events and circumstances shape the answer to the question. All world powers openly utilize telecommunications as a

national instrument as this country does its mail service. Further, telecommunications itself is an area of direct conflict and a theatre of cold war because of the active and latent challenge of Soviet jamming capabilities. For these two reasons it will become increasingly difficult and ultimately impossible for this country to continue to meet its communications needs on an agency and individual (competitive) company basis.

Policy direction and support of this nations telecommunications activities must be raised to the Government level if the national welfare and national security are to be adequately served.

The Committee offers a statement of what it believes the broad national and international telecommunications objectives of this Government should be. In recommending policies, action programs and organizational changes, the Committee has set forth the concepts and the mechanisms which it believes can best accomplish the national objectives and lead to solutions of the many particular problems. We believe that the guidelines laid down by the Committee will facilitate the solution of day-to-day problems, and be flexible enough to meet changing national and international conditions.

I. *Importance of Telecommunications to the United States*

The importance of communications, especially rapid communications, to this nation increases as our interests, activities and responsibilities are extended further and further across the face of the globe, and as the speed of transport gets greater and greater. The international telegraph, telephone and radio are the great universal catalysts of trade and culture, but for this nation, they are even more. Upon their efficiency depends whether the United States will grow in the future, as Great Britain has in the past, as a center of world thought and trade, and influence. Our Constitution recognized the importance of communications to the thirteen original States, by providing for a national postal system as a Federal monopoly and the building by the Federal Government of post roads. Today, rapid electrical communications are equally important to this nation as the power center of the free world. The importance of telecommunications as the "voice of command" for the military can hardly be overstated in the light of current weapons and military technology. In the philosophical sense, many mathematicians and scientists consider that modern communications theory is the key concept of 20th Century science.

II. *Summary of Present U.S. Situation in Telecommunications*

The Committee believes that the present U.S. situation in telecommunications is generally unsatisfactory, and in particular respects, is dangerously and critically so. The situation is as follows:

1. This country is unable to use its telecommunications resources to effectively support national policies. Its international communications is fragmented between eleven carriers operating under a concept of regulation, and its Government communications are managed on an agency basis to serve respective and restrictive agency needs.

2. There is no coherent body of national telecommunications policy and there is no satisfactory machinery for making telecommunications policy at the Government level.

3. The United States is unable to exercise effective leadership and strong influence throughout the world with respect to the conditions, methods, rates, etc. under which international telecommunications will be carried on. The U.S. position in telecommunications is in sharp contrast with its over-all position in world affairs.

4. This nation is in a poor competitive position as a world carrier of telecommunications. It cannot compete on a broad front with the British Commonwealth system except possibly in the field of international telephone service, and the Soviet Union is rapidly bringing itself into a strategic and powerful position in telecommunications. Reviving interest of Germany in international telecommunications is a potential factor.

5. The international telecommunications of this country are insecure against potential disruption from jamming action by the Soviets. This country is presently highly dependent for its civil and military communications upon radio, which can be seriously disrupted by existing Soviet jamming systems. There are, however, some cables to Europe and South America, and a new telephone cable to the United Kingdom is under construction.

6. There is a questionable future for the international record commercial carriers because of their over-all financial position in the face of fragmentation, competition, and foreign monopolies, and the long range future of essential elements of military communications are equally uncertain because of the uncertainties of political relationships in such countries as Japan and Germany.

. . . . . .

10. The 11 United States international carriers, in addition to competing with each other on foreign soil, must deal with and compete with state monopolies in almost all countries of the world. Within the United States competition is limited largely to a few gateway cities and distorted as a result of Western Union control of the distribution of international traffic between the 11 carriers and the fact of Western Union ownership of international cables.

11. To a continually increasing extent, London is becoming the switching and control center for our essential world telecommunications, and a series of actions on the part of the U.S. has contributed to this trend.

12. This country's domestic record telecommunications system is not adequately interconnected with the domestic systems of the other countries of the world. The teletypewriter exchange service of this country is not interconnected with a similar European-wide system. In the telephone field, service is offered to over 100 countries with dependency entirely upon radio links rather than cables

which would be more reliable. This results over-all in poor service based on domestic standards.

III. *U.S. Objectives in Telecommunications*

In the furtherance of the national economic, political and security interests, the United States must possess domestic and international communications systems capable of transmitting the aural and written word by wire, cable, radio or other electronic means, so as to make available, so far as possible, to all of the people of the United States a rapid, efficient, national and world-wide electric communications service, with sufficient facilities at reasonable charges that will not only accommodate all peacetime requirements, but will be capable of satisfying, to the maximum extent practicable, the expanded requirements of a state of hostilities.

Specifically, the Committee believes that telecommunications should be made to serve as an instrument of national policy, and that the nation's communications activities and telecommunications resources be directed and managed so that they:

1. Make the maximum contribution to the security of the nation at the least practicable cost.
2. Most effectively support this country's international military, political and economic policies devoted to the cause of peace and progress in the world.
3. Provide the public and the Government of this country with the best practicable telecommunications services, domestically and internationally, at the lowest possible cost.

IV. *Recommended Policies*

We recommend the adoption of the following policies as necessary to the satisfactory solution of the major national telecommunications problems and the achievement of our national objectives.

1. *Utilize the telecommunications resources and activities of the nation as a binding force within the free world, by provision of adequate service and insofar as practicable equalization of rates within the free world area.*

The deliberate and effective use of telecommunications to facilitate trade within the free world area, to promote cultural and informational exchange leading to better identity of common interests and objectives can over a period of years become a very effective force in holding together the free world to resist the pressures of Soviet communism. This nation can accomplish this by providing better service than now exists and adequate service where none exists, and to the extent that proves practicable, bring about an equalization of rates within the free world area.

2. *Promote and foster a United States dominated globe girdling trunk line communications system, using both cables and radio, and*

such Government and private installations and facilities and such foreign facilities as are available or necessary.

Such a system will permit interconnection with the national internal systems of the various countries throughout the world and will serve to link the commerce, government and peoples of the countries throughout the free world. There is need for such a system. The British Commonwealth system partly meets this requirement for written messages, but it has inherent possibilities for manipulation to serve unilateral British ends. It is by current technical and operating standards partly obsolete. Centralization in London makes it vulnerable as a system. Each of the three U.S. military services have in being or programmed the basic ingredients of such a world girdling system, but each of these systems is available only for U.S. Government traffic and they are largely temporary in nature since the foreign terminal and relay points are tied to military base agreements. The military systems do not connect with the public systems of this or other countries.

3. *Provide for the special requirements and needs of such activities and programs as military, diplomacy, intelligence, etc. insofar as possible within the broad concept of a single, permanent, integrated and adequately financed U.S. international telecommunications system.*

We believe that the three military services and other areas of Government activity require, and will continue to require, special operating networks and communications systems on an earmarked or exclusive use basis but within the framework of an over-all national system. We also believe that a greater pool of residual facilities and communications capabilities, instantly available to whichever area of national activity (military, diplomatic, economic, etc.) requiring it, can be created and maintained through such a single system.

When the military need is paramount it will have first call on such residual capabilities in the same way that it has first call on domestic telephone and telegraph capabilities. When the diplomatic need is paramount the organizations of diplomacy will have first call, etc.

4. *Adopt the "national instrument" concept in lieu of the policy of required competition between the American carriers and with foreign monopolies.*

Rates of American international carriers are rigidly regulated but competition is not. These eleven carriers are required to compete for foreign business in the face of foreign domestic and international monopolies. Foreign carriers can and do play one American company against another. We believe that aside from the question of the prosperity and health of the private carriers, it is impos-

sible for this country to effectively utilize the resources of the private companies as an instrument of national policy if these companies are required to compete with each other for the business and favor of foreign monopolies.

5. *Minimize the vulnerability of this nation's radio communications to Soviet jamming by all practicable means—by direct Government action and by Government financial assistance as necessary.*

Until the vulnerability of this nation's radio communications and those of most of the other countries of the free world are materially reduced, our communications with our own establishments overseas and with friendly countries will be uncertain and in constant jeopardy. We urgently recommend that all practicable steps be taken immediately to reduce this vulnerability of not only our military communications, but our other Government and commercial communications and those of countries whose interests are identified with ours. This vulnerability provides an opportunity for the use of the Soviet jamming capabilities as an instrument for blackmail to be applied to countries throughout the world, both small and large.

6. *Manage the use of the radio spectrum to achieve the nation's telecommunications objectives, for cross support of other national telecommunications policies and to enhance its usefulness as a national and international resource.*

This country will be stronger and the free world will be stronger as there is more communication rather than less. The absence of management of the use of the radio spectrum at the national and international level makes it very easy for the Soviets through the latent threat of jamming, through preclusive use of frequencies to reduce and make more difficult the flow of communications throughout the world. This nation can ill afford to continue its use of the radio spectrum on the basis of squatters rights, the falacious concept of "warehousing", competition, and regulation. If the use of the radio spectrum can be managed to support national telecommunications objectives and to implement national telecommunications policy, the position of this nation in the world will be greatly enhanced.

7. *Regain leadership of the free world in promoting the use of telecommunications for the pursuit of peace, progress and the common defense.*

If this country is to achieve its objectives in telecommunications, it is essential that it regain leadership, at least of the free world, in this area. Our far-flung interests, commitments and responsibilities, which are vitally dependent upon communications in every dimension, make it essential that we strive to place ourselves in an internal position and to formulate sound and effective policies

which will place us in a position of leadership of the free world in this area.

8. *Achieve strength for negotiating with foreign countries on telecommunications matters.*

Having established a clear and unified long range national purpose this country will be in a stronger position to negotiate with foreign countries on cable-landing rights, frequency management, rates, and other matters. The strategic importance of telecommunications to the security and future of this nation warrant the utilization to a greater degree of basic elements of national strength in carrying on telecommunications negotiations with foreign countries. For example, we believe that appropriate features of the aid and loan programs should be utilized in securing strategic concessions of a telecommunications nature from foreign countries. After having achieved the essentials for a global telecommunications system, the mere offer of access to the use of this system on favorable terms will be an attractive inducement to many countries to grant further desirable rights and concessions to this country.

Negotiations for military communications bases should to the extent possible be carried on within a framework broader than just the military necessity, but looking toward a degree of permanence and utility that extends beyond the immediate military use of the particular radio or cable installations. Commercial companies should always be assisted and guided by the Government in negotiating with foreign governments for telecommunications concessions in view of the importance of these negotiations to the security and over-all objectives of this nation.

9. *Exploit, fully and promptly, new technological developments applicable to telecommunications so that full advantage will accrue to the nation and to the users of such U.S. international system as may subsequently be established.*

Technological developments which will contribute in a practical manner to the security of our communications, to their economy, or to the quality of service, should be widely adapted within the concept of the national system to the extent that security indicates whether their origin be commercial, Government or military.

10. *Progressively obtain maximum compatibility of U.S. and free world communications systems and maximum interchangeability of essential parts.*

We believe that continuing and positive efforts should be made through the most appropriate channels to secure the highest practicable degree of compatibility of U.S. international and domestic systems with the systems of free world countries, and that the essential functional elements of these systems be interchangeable to the highest degree that is practicable in order that peacetime traf-

fic may be speeded, operating costs lowered and maximum security against disruption and failure of free world communications from enemy action be obtained. The ability of the system of one country to work with that of another country or as part of a larger system without the re-handling and re-processing of traffic will greatly strengthen the over-all free world telecommunications position.

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12. *Supplement the existing intercity telephone and telegraph line system to the extent necessary to provide for re-routing and by-passing of essential traffic in the event of enemy attack. The Government should finance such supplemental facilities to the extent that is necessary to prevent rate increases arising therefrom.*

The kind of system which will provide the best service at the lowest rates is probably not the one which will provide the maximum security against enemy attack. The defense of the nation is a Federal responsibility, and the Federal Government should make sure that communications are secure against enemy attack. To the extent that the communications carriers can do this they should be encouraged although Government assistance may become necessary.

13. *Establish telecommunications attachés in the significant foreign mission of the U.S.*

The primary purpose would be to further United States global telecommunications interests, report on new developments and techniques in the art as may originate in foreign lands. These attachés while serving in the foreign missions of the Department of State would report direct to the officer in the Executive Branch as well as through the Department of State. The attachés shall be selected on the basis of technical experience and qualifications from private industry, Government and the military services. They shall be considered as specialists and shall not be employed, promoted or terminated according to the same criteria of fitness and performance as are general Foreign Service officers.

V. *Action Programs To Carry Out These National Policies*

We have found that many of the action programs necessary to implement the recommended national policies cannot be initiated without legislative authority of one kind or another and without basic changes in organization. This is true because of the divided authority between the FCC and the Executive and because of the basic principle in the Communications Act of 1934 requiring competition between international carriers, and the achievement of the public interest, convenience, and necessity merely through regulation. The action programs outlined below are in some cases inter-

locking and interdependent; some are short range and others will necessarily extend over an indefinite period of time.

Some of these action programs can be carried out by the Executive Branch within present legislative authority while in the case of others for which legislation is required the Executive may either take the initiative in proposing legislation or may rely upon the appropriate committees of the Congress to initiate legislation. It is intended that these action programs will be implemented through private enterprise whenever possible.

We believe the following are the principal action programs necessary to carry out the recommended national telecommunications policies and should be adopted by the Government.

1. Plan in broad outline the essential features of the world-wide trunkline communications system utilizing both cables and radio and such private and Government installations and facilities as may be practicable, taking into account the special needs of the military services and other activities of the Government and the conditions and economics of the telecommunications industry. Such a system should be planned to implement the policy recommendations under *Section IV* above.

2. Provide by contract or other appropriate means for the construction of essential international trunkline elements in the world system utilizing to the maximum practical extent the resources, know-how, and experience of private companies and Government organizations in this field.

3. Study and come to a conclusion as to the most appropriate and equitable means of consolidating existing international commercial carriers into one or more national instruments such that American competition will be with foreign systems and not between elements of the American system.

4. Study and reach a determination of the special communications activities and requirements of the military, diplomacy, intelligence, etc. which require special facilities within the framework of an over-all national system and upon the basis of these determinations the agencies concerned shall take steps to make adequate provision for these needs. As to the general communications requirements of these activities, such as administrative, information, etc., a determination shall be made as to how they can be best met within the framework of a single permanent integrated national system.

5. Make studies and arrive at determinations as to the conditions, criteria and rate schedules under which non-military traffic will be handled over elements of the military system. This shall be done within the concept that the elements of the military systems having such capabilities shall not be competitive with non-military

circuits or capabilities but shall be a part of a national system for this purpose.

6. Determine the methods and means whereby a low international press rate can be made available to American news agencies on a basis generally competitive with that offered by the British Empire communications system.

7. Should after adequate study of the problem, undertake negotiations with foreign governments and telecommunications administrations looking toward the gradual establishment of a system of equalized rates between the countries of the free world. This shall be closely coordinated with our national military, economic, and political objectives, policies, and commitments.

8. Manage the allocation and use of the radio spectrum by all United States users, public and private, upon the basis of need, current use, and effect upon the over-all national position in the use of the radio spectrum. Management of the families or bands of frequencies allocated for the domestic broadcasting services shall be the responsibility of a separate regulatory body.

9. Review its treaties, executive agreements, international plans and understandings within the framework of the above stated objectives, policies, and action programs and, to the extent that such agreements, treaties, understandings, etc. do not support and contribute to the realization of these objectives and the implementation of these policies, shall take all practical steps to secure the revision of such agreements, treaties, etc. This review shall also take into account the broader common interests, objectives and security of those countries to which the United States is tied by common economic, political and security interests.

10. Review on a current and continuing basis the loan and aid programs to determine if they can effectively contribute to a strengthened national position in negotiating with foreign countries on telecommunications matters without serious impairment of the primary objectives of such programs.

11. Currently and continuously examine new technological developments applicable to telecommunications to determine the applicability to domestic and international systems and, to the extent that it is in the national interest, to the systems of other free world countries. Discreet systems, techniques, and developments having peculiar or special application to such specialized communications activities as serve the military, diplomacy, intelligence, etc., shall be maintained on a security basis but reviewed periodically.

12. Currently and continuously review the compatibility of the major military trunkline systems and the interchangeability of major elements of such systems, with each other and with other U.S. communication systems, domestic and international, and

should actively promote such compatibility and interchangeability to the maximum practicable extent.

13. Undertake studies on a periodic basis of the compatibility of all U.S. systems with each other and with the systems of other free world countries and should undertake such programs as may be practicable to develop conversion and interconnection mechanisms, procedures, and equipment as will increase the compatibility of the systems on a short time basis and at minimum cost.

14. Consider regular mail, air mail, and the various forms of electrical communications as alternate means of communicating, each having its individual characteristics and capabilities for serving the general and specialized needs of Government and the public. Rates, subsidies and taxes relating thereto should be reviewed in the light of such considerations.

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16. Solve the problems of making available direct teletype service to foreign countries to the entire United States on a basis at least equal to that now limited to the principal international gateway cities of Washington, New York and San Francisco.

17. Bring about conditions whereby the Teletypewriter Exchange System of this country may be interconnected with the comparable system in Europe to the end that Western Europe and the United States will be part of a single teletypewriter exchange system.

18. Continue study of the adequacy of the intercity telephone and telegraph system in the event of various hypothetical kinds of attack upon this country and should make sure that communications are secure against enemy attack by encouragement of private carriers and financial assistance when necessary.

19. The Department of State, upon the passage of necessary legislation, should undertake the establishment of diplomatic communications service within the framework of the national telecommunications system utilizing to the maximum extent possible the trunkline facilities of such a system.

VI. *Organization*

We are convinced that these objectives can not be attained nor these policies implemented within existing Government organization and under existing legislation. The division of authority and responsibility between the Executive Branch of the Government and the Federal Communications Commission is an insurmountable obstacle. We believe that the activities of the Federal Communications Commission in the telecommunications field other than domestic broadcasting services must be carried on within the Executive Branch.

The President is responsible for the national security, the conduct of foreign relations, and the general direction of the activities of Government. If telecommunications is to play an effective role in these areas, authority and responsibility must be centralized in the Executive Branch.

We have considered various organizational possibilities within the Executive Branch and have concluded that a possibility is to substitute a Department of Communications for the present Post Office Department. The Department of Communications would be of Cabinet rank, would break down into two basic subdivisions; namely, the Postal Service and the Telecommunications Service. Another possibility is the establishment of a completely independent Cabinet level organization having the responsibilities and authorities, in the field of telecommunications, now lodged in the Federal Communications Commission and in the President, except those relating to oral and visual broadcasting services.

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VII. *Legislation*

New legislation is basic to the accomplishment of the above objectives and the implementation of the recommended policies. Such legislation will:

1. Establish the principle that telecommunications are to be used as an instrument of national policy.
2. Establish the Department of Communications with authority over present postal activities and telecommunications, including:

   a. Centralized authority within the Executive over telecommunications and the use and allocation of the radio spectrum.
   b. Authority for promotion and direction as well as regulation of telecommunications.
   c. Provision for the existence of one or more private companies under the principle of national instrumentalities.
   d. Authority for the construction of telecommunications facilities in the national interest in instances where private companies are unable or unwilling to do so.

3. Establish a Federal Radio and Television Commission to license and regulate the domestic broadcasting services comparable to present regulation by the Federal Communications Commission.
4. Provide authority for Government communications facilities and systems to carry public traffic where such is in the national interest.

Legislation along other lines may be found to be desirable or necessary as action programs progress and new circumstances come into being.

911.5200/12-1854

The Under Secretary of State (Hoover) to the Chairman of the Civil Aeronautics Board (Gurney) [1]

CONFIDENTIAL WASHINGTON, December 18, 1954.

DEAR MR. GURNEY: In response to the Board's request for this Department's views on the Trans-Pacific Certificate Renewal Case (CAB Document 5031 et al.), the Department sent a letter to the Board dated September 29, 1953 [2] in which the various aspects of the case of interest to this Department were reviewed. This letter was supplemented by a letter dated May 13, 1954 and another dated November 15, 1954.[3] In view of the lapse of time during which this case has been under consideration and the developments that have taken place during that period, it is believed desirable to restate the Department's comments on the case.

The Trans-Pacific Renewal Case, affecting as it does operations of United States air carriers over a broad area of the world, is one in which the application of the general policy of the United States Government with regard to the development of international air transport service is of importance. It is the general policy of this Department to favor competition between U.S. carriers in international air transport services. However, experience has shown that in the international field area competition is preferable to route or point-to-point competition. The Department wishes to reaffirm its support of this principle.

As is well known, geographic and political factors in the Pacific area have made impossible the type of area competition feasible in other parts of the world. Nevertheless U.S. carriers have been able to establish competitive services and to experience satisfactory relations with the governments of the countries served. The Department believes that such services should be continued so far as such continuation is compatible with the maintenance of a reasonably economic air transport system. Such service is a demonstration of U.S. interest in and contribution to the economic development of the areas served.

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[1] Codrafted on Dec. 14 by H. Alberta Colclaser, Chief of Air Transport Relations, and Edward A. Bolster, Aviation Division; redrafted on Dec. 15 by Special Assistant to the Assistant Secretary of State for Economic Affairs Radius.

[2] *Ante*, p. 419.

[3] The letter of May 13 dealt with the question of certification to points on the China mainland; the letter of Nov. 15 reaffirmed the Department's position concerning the Trans-Pacific Certificate Renewal case previously expressed in the Secretary's letter to Ryan dated Sept. 29, 1953. Neither the May 13 nor the Nov. 15 letter is printed.

On the question of certification of any U.S. airlines to points on the China Mainland, the position expressed in the Department's letter of May 13, 1954, opposing such certification, is reaffirmed.

This case also involves the question of linking Trans World Airlines with Northwest Airlines by (1) renewal of the presently inoperative portion of the Trans World Airlines certificate for service beyond Bombay to Calcutta and Far East points and the addition of Tokyo, or (2) the extension of the Northwest Airlines route beyond Tokyo to Hong Kong, Bangkok and Calcutta. The Department, after weighing the value of competition between U.S. carriers against foreign relations problems which would arise in seeking such traffic rights, does not believe that a second round-the-world service should be created at this time.

However, if it is concluded that economic or military considerations justify the second round-the-world service, the Department calls the following factors to the Board's attention. Current relations with India indicate that the establishment of a connecting point between Trans World Airlines and Northwest Airlines in that country cannot be accomplished in the foreseeable future. Although a certificate providing for a connecting point outside India would be less disturbing to the Indians, difficulties would be encountered in obtaining the desired traffic rights, particularly should such certificates require conclusion of arrangements with the United Kingdom for service to Singapore or Hong Kong. Furthermore, any additional U.S. carrier service operating in direct competition with the Philippine airline is likely to encounter serious resistance, especially with reference to fifth freedom traffic. This is also true of new service competitive with the Indian airline as long as the United States airlines enjoy traffic rights in India.

Aside from operational problems a carrier's relationships with the governments and people in the area which it serves affect the reactions of those governments and people to the United States as a whole. Withdrawing Northwest Airlines from the places where it has developed good-will and favorable relations and, in the case of Korea and Formosa, substituting a new carrier, would leave at best a period of uncertainty and a need for especial care in replacing the loss.

The Department brings the above foreign relations considerations to the attention of the Board in accordance with its request in order that it may have them available in its examination of the case. The Department is fully aware, however, that these views represent only a few of many considerations which the Board must take into account in determining this case.

Sincerely yours,

HERBERT HOOVER, JR.

911.5200/12-2654

Memorandum by the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover) and the Deputy Under Secretary of State (Murphy) [1]

CONFIDENTIAL [WASHINGTON,] December 27, 1954.

Subject: Trans-Pacific Certificate Renewal Case

Discussion:

In a letter dated December 20, 1954 [2] the Bureau of the Budget in accordance with the usual procedure requested the views of the Department on the Civil Aeronautics Board's recommended decision in the Trans-Pacific Certificate Renewal Case (Docket 5031, et al) dated December 17, 1954. Subsequently, the Department was requested by a telephoned message from the Bureau of the Budget to expedite its comments on this case, sending them to the Bureau of the Budget not later than December 27. Informally the Department has learned that the reason for the expedited action is to enable a cabinet level meeting scheduled for December 30 to discuss this case. Up to the present time the Department of State has apparently not been invited to participate in this meeting.

It is important that the Department of State participate in the meeting to discuss the Trans-Pacific Case since it involves international civil air transport matters. Furthermore, the responsibility for negotiating with any foreign governments for additional traffic privileges which may be needed to implement the routes authorized rests with the Department. The meeting will afford an opportunity to clarify the Department's interests and responsibilities.

The Board's decision recommended a continuance of both Pan American and Northwest operations across the Pacific; the denial of TWA's application for an extension of its certificate to permit a round-the-world service through connection with Northwest; and a denial of the Transocean Airlines' application for a certificate to operate across the Pacific. The Department did not make previous comments with regard to the Transocean application. The Board's proposed decision with regard to other matters is in line with the Department's recommendations. There is attached a letter to the

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[1] Drafted by H. Alberta Colclaser; concurred in by the Bureaus of Economic Affairs, European Affairs, Far Eastern Affairs, and Near Eastern, South Asian, and African Affairs, and by the Office of Transport and Communications Policy.

[2] Not printed. (911.5200/12-2054)

Bureau of the Budget (Tab A)[3] expressing concurrence with the decision.

There is also attached a proposed memorandum to the Secretary (Tab B) briefly summarizing the situation with regard to this case in order that he may be informed in case the question is raised with him directly.

Recommendation:

It is recommended that: (1) Mr. Hoover phone Mr. Sherman Adams at the White House and advise him of the Department's interest in, and desire to participate in, any meeting held to discuss this case,[4] (2) Mr. Hoover sign the attached letter to the Bureau of the Budget (Tab A),[5] (3) that Mr. Hoover sign the attached memorandum and transmit it to the Secretary (Tab B).

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[3] No tabs were found with the source text.

[4] Under Secretary Hoover called Governor Adams at the White House on the morning of Dec. 29, and in the Governor's absence left the appropriate message. (911.5200/12-2954)

[5] The reference letter was signed and sent under date of Dec. 28; see *infra*.

911.5200/12-2854

The Under Secretary of State (Hoover) to the Director of the Bureau of the Budget (Hughes)[1]

CONFIDENTIAL [WASHINGTON,] December 28, 1954.

DEAR MR. HUGHES: Reference is made to the Bureau of the Budget's letter of December 20, 1954 transmitting a copy of the Civil Aeronautics Board decision in the Trans-Pacific Certificate Renewal Case, Docket 5031 et al., and requesting the views of this Department thereon. The Department believes in general that the views expressed by the Board are consistent with and would further the foreign policy objectives of the United States at this time.

It is noted that the Board's decision provides for continued competition between United States carriers across the Pacific and that it establishes, so far as is possible under existing conditions in the Pacific, area competition between such carriers. In this connection the Department notes that the Board has found that any savings that might result, even under reasonable assumptions favorable to single carrier service, would be far outweighed by the overall benefits resulting from competition over the Pacific. It is the Department's view that this finding indicates that continuation of competition over the Pacific is consistent with the Civil Air Policy ex-

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[1] Drafted by H. Alberta Colclaser.

pressed in the Air Coordinating Committee's report of May 1954, approved by the President.

The Board's handling of the situation with regard to certification of carriers to serve points presently inaccessible to United States air carriers because of the political situation seems to this Department to be especially noteworthy. The Department is pleased to note that the Board has found it possible to continue a flexible situation with regard to these points without naming them as points in a new certificate. In this respect it is assumed that the authorization to serve these points through the application of the Administrative Procedures Act is subject to further CAB approval should it become feasible to operate to these points.

As is noted in the Board's Opinion, operations into Hong Kong by Northwest Airlines cannot be begun until the British have agreed that a United States airline may exercise traffic rights there.

The Department also wishes to express its approval of the Board's action in deferring decision on the TWA request for renewal of existing authorizations to serve points in the Far East. Inasmuch as this Department has found that such value as a second round-the-world service at this time might provide would probably be outweighed by the foreign relations problems that would arise in seeking the traffic rights necessary to establish such a service, it is believed that the Board's opinion denying the application for new and additional points for that purpose is wise.

In view of the above foreign policy considerations, the Department of State recommends the approval of the Board's decision in the Trans-Pacific Certificate Renewal Case.

Sincerely yours,

HERBERT HOOVER, JR.

FOREIGN ASSISTANCE POLICIES UNDER THE MUTUAL SECURITY PROGRAM [1]

EUR/EX files, lot 57 D 694, "Mutual Security Agency (General)"

Memorandum by the Executive Assistant to the Director for Mutual Security (Sheppard) to the Director of Mutual Security (Harriman)

[WASHINGTON,] October 27, 1951.

Subject: Committee Arrangements.

The Executive Order [2] will abolish the International Security Affairs Committee and its subcommittees. Through this medium, and its predecessors, the interested agencies have cooperatively developed policies and procedures currently governing the mutual security programs. The question: What committee arrangements will be needed in the future?

Although the real issue is how the committee is set up and managed, at the outset some will question the need for a committee at all. The facts which support the need for some committee arrangement can be simply stated. The Mutual Security Program consists of diverse operations, employing diverse techniques among diverse peoples and situations. Many parts of three separate Government agencies are directly involved in the program. In addition many aspects of the program impinge on the responsibilities of several other agencies. The constituent elements of the program, however, all support the same foreign policy objectives; and the sine qua non of successful accomplishment is consistency in conception and execution. Committee work is not the only way to develop this consistency of course. But it is one of the more important ways by which we can get multi-agency action, with economy in time and effort.

In establishing new committee arrangements we should take advantage of some unfortunate experiences with ISAC. While there is a surfeit of uncritical judgment on the errors of ISAC, there were

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[1] For previous documentation on this subject, see *Foreign Relations*, 1951, vol. I, pp. 266 ff. For documentation on economic development policy and technical aid, see pp. 227 ff.

[2] Reference is presumably to Executive Order 10300 of Nov. 1, 1951, providing for the administration of the Mutual Security Act of 1951 and related statutes. For the text, see the Department of State *Bulletin*, Nov. 19, 1951, pp. 826–827, or *American Foreign Policy, 1950–1955: Basic Documents*, vol. II, pp. 3086–3088.

actually five aspects in which it was found wanting. To begin with, too much reliance was put on formal committee action. It has long since been proven true that the Government would jar to a halt if it were not for the informal day-to-day contacts between individuals of different agencies. Any artificial requirements that all collaboration be through a committee is nonsense of course, but the relative emphasis between the formal and informal is important. The greater your staff can accelerate the evolution of informal cooperation, the quicker we will solve the problem of "Government by committee". A second shortcoming ISAC suffered was the lack of good staff work. Too much responsibility was put on subcommittees instead of on agencies. There comes a time in the development of a policy or a procedure when it should move from an agency to an inter-agency forum. Generally, however, the subcommittees of ISAC were formally seized with a problem too early in its development. The staff work was similarly faulty in that neither in the committee structure, nor in the agency structure was there one group responsible on a full time basis for reviewing and seeing that action was taken on the whole range of problems in the program. This was a serious gap which the Gordon shop should overcome. At heart, such a general review is a planning function in which the major problems are separated from the minor problems. The staff responsible then takes the action necessary to reach a quick solution—even though the action might be to have one of the agencies do it. A third deficiency we suffered in ISAC was a lack of discipline in controlling the gestation period of the various problems. Many of the issues in the mutual security field require, by their complex nature, considerable inter-agency exposition, discussion and reflection. Decisions on these issues many times involve overruling stoutly held points-of-view. The problem is to allow sufficient discussion and analysis to clarify the issue and develop the facts which bear upon it, but to terminate this process with a decision before discussion reaches the point of diminishing returns. Our handling of the infrastructure question is a good example of how it shouldn't work. Disciplining the gestation period works two ways. We can get as poor results by precipitately inflicting a unilateral decision as we can by interminable discussion and analysis. Fourth of the major ISAC errors was the way the subcommittees developed. In the beginning, ISAC established subcommittees by speculating on the pattern in which anticipated problems would arise. There is no doubt that it was overdone. Moreover, membership in the parent committee carried a right to membership in all subcommittees. This led to a swelling in the subcommittees which was not conducive to brisk discussion. The last error in ISAC was that the members were not all able to speak for their agencies. It

will be essential in forming the new committee that we assure members who can in fact speak for their agency heads. Some of these problems will be avoided by the way we set up the committees; some will be avoided by better management.

Against this background, it is recommended that initially we establish only one committee, to be known as the Mutual Assistance Advisory Committee and to be chaired by Mr. Gordon. It is recommended that no permanent subcommittees be established but that for the time being we rely upon the designation of *ad hoc* groups to consider *ad hoc* problems, with the membership to be determined by the chairman of the parent committee. It is recommended that we continue to use the secretariat facilities of the State Department. This would have the advantages of maintaining a common secretariat for both MAAC and NATO problems. State's people are experienced in the subject matter, and it is administratively much more convenient.

One problem on which we have come full circle over the past year is how we relate the assistance aspects of the mutual security program to U.S. positions in regional groups, such as NATO. In the present situation, where authority is separated again, the State Department could establish—in addition to the committee discussed above—a committee to coordinate the agencies on those NATO matters which do not involve assistance programs. It is possible that the Departments of State and Defense would prefer this, and there might be some advantages to such a course. On the other hand, such a NATO committee would consist of the same agencies proposed for the MAAC and the agencies would be represented by the same people. Both committees would be serviced by the same secretariat and many of their problems would be impossible to separate. Establishing two committees at this time, therefore, seems extraordinarily impractical. In lieu thereof it is recommended that the MAAC also be used for coordinating non-assistance U.S. NATO positions, with the Chair alternating between your office and the State Department depending on the agenda.

There has been some discussion about whether or not in addition to a working level committee there shouldn't also be a Cabinet-level committee which you would chair. From an institutional standpoint, such a committee would have several disadvantages. For example, there would likely be more decisiveness and discipline in the working-level committee if conflicts either had to be resolved there or else the dissenting member had to carry the burden of proof to get his own agency head into the matter. There is also a question about the extent to which a Cabinet-level committee would restrict your flexibility in resolving differences. Many such differences which occur will be between two Departments

only. Many such differences might be resolved more readily below the Cabinet level, but above the working committee. As you know, we created a Cabinet-level Foreign Military Assistance Steering Committee at the Cabinet-level a couple of years ago. It has met once and that meeting was only a formality.

On balance it is recommended that no Cabinet-level committee be established at this time, although it is recognized that there might be other considerations which would offset these disadvantages.[3]

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[3] On Nov. 1, 1951, Harriman informed Secretary Acheson by letter of the establishment of a Mutual Assistance Advisory Committee (MAAC). This letter, also addressed to the Secretaries of Defense and Treasury, the Director of Defense Mobilization, and the Acting Administrator for Economic Cooperation, requested the addressees to designate representatives to the Committee "in order that we may have the benefit of the advice and views of your agency. It would be helpful if your designation could be made as soon as possible so that the work on the 1952 and 1953 programs can proceed." (A/MS files, lot 54 D 291, "Director for Mutual Security") The first meeting of the Mutual Assistance Advisory Committee took place on Nov. 13, 1951. A file of MAAC minutes is in A/MS files, lot 54 D 291, "Mutual Assistance Advisory Committee."

ECA-MSA-FOA Executive Secretariat files, FRC 56 A 241, box 95, "DMS Documents"

Memorandum by the Assistant Director for Program of the Mutual Security Administration (Gordon) to the Special Assistant to the Secretary of State for Mutual Security Affairs (Merchant)

SECRET WASHINGTON, 31 January 1952.

Subject: FY 1953 Program—Basic Programming Figures

The President's budget included $7.9 billion in new obligational authority for the FY 1953 Mutual Security Program. Based on (1) this over-all figure, (2) the original agency requests, (3) the mark-up by the Bureau of the Budget, (4) the appeals filed by the agencies with the Bureau, and (5) subsequent inter-agency discussions, firm figures have been developed for the several major component elements of the Mutual Security Program. These figures, which we discussed together and which were conveyed to you informally some days ago, are set forth in Annex A hereto and, subject to the qualifications and comments noted below, will serve as the broad basis for developing the specific programs to be submitted to the Congress.

1. *The military aid figure* of $5.4 billion has not yet been distributed among the different geographic areas and, within each area, among the several prospective recipient countries, nor between military end-items and training. The Department of Defense has the responsibility for developing a proposed distribution, for coordinat-

ing this proposal with the Department of State from a political standpoint, and for submitting a coordinated position, or any differences in position, to the Director for approval or decision. It is understood that this process is already well under way in the Department of Defense and that the recommendations of the Joint Chiefs of Staff on the subject will be available by the end of this month. In reaching a final decision as to this distribution the following factors, among others, must be kept in mind:

a. $1,000,000,000 should be programmed for offshore procurement in Europe. (In this connection, consideration should be given as to whether all of this amount should be included as new obligational authority under the European title of the bill or whether some part thereof should be included in Titles II and/or III to reflect, if this be the fact, the possible offshore procurement in Europe of items required in other MDAP programs—Indochina, as a possible example.)

b. The $5.4 billion of new obligational authority should be so programmed and distributed in relation to the obligational authority which has heretofore been made available as to permit:

(1) Not less than $12,000,000,000 in MDAP expenditures during the period between June 30, 1951 and June 30, 1953, such expenditures to be reflected to the maximum extent practicable in goods actually delivered and training furnished.

(2) Deliveries to the NATO countries (not including Greece, Turkey, or Germany) during the period between June 30, 1951 and June 30, 1953 in a total amount of not less than $9,800,000,000 (including therein the value of any deliveries under offshore procurement, the cost of packing, handling, crating and transportation of items delivered, and the value of excess equipment furnished).

(3) Deliveries as among the several NATO countries and Germany on a basis which, when taken in conjunction with each such country's anticipated indigenous efforts, will best carry out the recommendations of the TCC report [1] (flexibility will of course be maintained for subsequent adjustments required to reflect any agreed changes in these recommendations).

(4) Deliveries to non-NATO recipient countries (including Greece and Turkey) as a whole, and to each of such countries, in amounts which, among other things, reflect, within the limits of mutual assistance funds, the appropriate application to the requirements of each of these countries of the priority and allocations policy established in the President's letter to the Secretary of Defense of January 9, 1952.

(5) The placement of those contracts which, because of lead-time factors, must be placed in FY 1953 in order to permit the timely fulfillment of post-FY 1953 requirements for items peculiar to MDAP.

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[1] For documentation concerning the work of the Temporary Council Committee of the North Atlantic Council and its several reports, see vol. v, Part 1, pp. 1 ff.

(6) Provision of the training required to complement, and assure the effective utilization and maintenance of, the equipment to be delivered as indicated under (2), (3) and (4) above.

2. *The economic aid figure for Europe* is composed of the following three major categories: (a) country aid for NATO countries and Germany—$1400 million; (b) country aid for Greece, Turkey, Yugoslavia and Austria—$370.2 million; and (c) miscellaneous aid (movement of European people, technical assistance and CARE)—$34.8 million. Item figures in the third category, as well as the total of the third category, are to be considered as firm for presentation programming purposes. The *total* for the first category and the *total* for the second category are also to be considered as firm unless very strong considerations can be presented to the Director [2] which would justify an adjustment between the two. In the cases of both the first and the second category, the distribution among the individual recipient countries should be developed as part of the programming process. The Mutual Security Agency has the responsibility for developing a proposed distribution, for coordinating this proposal with the Department of State from a political standpoint, and for submitting a coordinated position, or any differences of position, to the Director for approval or decision.

3. *The economic aid figure for the Middle East and Africa* is composed of the following five categories: (a) Iran—$25 million; (b) Israel—$25 million; (c) Palestine refugees—$65 million; (d) Arab States—$17.5 million; and (e) Independent African nations—$3.5 million. The total for each of these categories is to be considered firm for presentation programming purposes. In the cases of both the fourth and fifth categories, no final distribution has as yet been made among the individual recipient nations. The Department of State (the Technical Cooperation Administration in conjunction with the appropriate political divisions) has the responsibility for developing, and submitting for the approval of the Director, a proposed distribution.

4. *The economic aid figure for South Asia* is to be considered firm for presentation programming, but no final distribution of this amount has as yet been made among the individual recipient nations. The Department of State (the Technical Cooperation Administration in conjunction with the appropriate political divisions) has the responsibility for developing, and submitting for the approval of the Director, a proposed distribution which should not, under any circumstances, allocate an aggregate in excess of $1 million to Afghanistan, Ceylon and Nepal.

5. *The economic aid figure for Southeast Asia and the Pacific* consists of the following three categories: (a) Southeast Asia—$130 million; (b) Formosa—$115 million; and (c) UNKRA—$55 million. The total for each of these categories is to be considered as firm for presentation programming purposes unless, in the case of the first and second categories, strong reasons can be presented to the Director which would justify some small adjustment between these

[2] Reference is presumably to the Director of Mutual Security, W. Averell Harriman.

two categories. No final distribution has as yet been made of the total figure for the first category among the individual recipient nations, except that $35 million thereof is to be programmed for common use items for Indochina. With respect to the balance of the first category ($95 million), the Mutual Security Agency has the responsibility for developing a proposed distribution, for coordinating this proposal with the Department of State from a political standpoint, and for submitting a coordinated position, or any difference of position, to the Director for approval or decision. In the case of the second category (*Formosa*), $35 million of the $115 million is to be programmed for common use items.

6. *The economic aid figure for Latin America* is to be considered firm for presentation programming, but no final distribution of this amount has as yet been made between the U.S. contribution to OAS and country aid, and among the individual recipient nations. The Department of State (the Technical Cooperation Administration in conjunction with the appropriate political divisions) has the responsibility for developing, and submitting for the approval of the Director, a proposed distribution.

7. *The figures for multilateral technical assistance and basic materials development* are to be considered as firm for presentation programming.

8. *The figure for Administration* can be considered as firm for presentation programming but has not been allocated among the several participating agencies. Such allocation will be made by the Comptroller, Mutual Security Program, after consultation with these agencies.

9. *The amount for Israel* has not yet been finally determined. In the event that it is increased beyond the $25 million indicated in paragraph 3 above, and that no increase is made in the grand total, offsetting adjustments will be required in other portions of the program.

10. The Office of the Director will discuss with the agencies concerned problems incident to the application of the foregoing. This includes in particular arrangements between the Department of Defense and the Mutual Security Agency to insure proper integration in the programming of military and economic assistance in Europe and in those countries of South East Asia where there are substantial military programs.

LINCOLN GORDON

Annex A

SECRET [WASHINGTON, undated.]

AID DISTRIBUTION FOR FY 1953

(In Millions of Dollars)

Area, Country of Type of Aid	
Military Aid for all Areas	5400.
(Includes funds for U.S. produced end-items, for an estimated $1 billion of offshore procurement in Europe and for military training)	
Economic Aid and Technical Assistance for all Areas	2410.
Europe(*)	1805.
NATO and Germany Country Aid (†)	1400.
Non-NATO Country Aid (†)(‡)	370.2
Miscellaneous(*)	34.8
Movement of European People	10.
Technical Assistance	22.
CARE	2.8
The Middle East and Africa	136.
Palestine Refugees	65.
The Arab States	17.5
Israel	25.
Iran	25.
Independent African Nations	3.5
South Asia	90.
Southeast Asia and Pacific	300.
Southeast Asia (includes $35 million for common use items)	130.
Formosa (includes $35 million for common use items)	115.
UNKRA	55.
Latin America (includes contribution to OAS)	23.
Miscellaneous	56.
Multilateral Technical Assistance (excludes contribution to OAS)	16.
Basic Materials Development	40.
Administration	90.

(*)Does not include $40 million for basic materials development which is listed separately. [Footnote in the source text.]

(†)Economic aid for Greece and Turkey are included in the non-NATO figure. [Footnote in the source text.]

(‡)Does not include any specific allowance for economic aid to Spain. [Footnote in the source text.]

700.5 MSP/2-2552

Memorandum by the Assistant to the Director of Mutual Security (Ohly) to the Special Assistant to the Secretary of State for Mutual Security Affairs (Merchant)

SECRET WASHINGTON, February 25, 1952.

Subject: FY 1953 Program—Adjustments in Basic Programming Figures.

Reference is made to the memorandum to you from Mr. Lincoln Gordon dated January 31, 1952 and entitled "FY 1953 Program—Basic Programming Figures",[1] which set forth what were then firm figures for the several major component elements of the Mutual Security Program.

Since the transmittal of the aforementioned memorandum, and as a result of Presidential decisions,[2] the figures therein referred to, and specifically itemized in Annex A thereto, have been amended in the following particulars:

1. "Military Aid for all Areas" has been reduced from $5.4 billion to $5.35 billion.
2. "Economic Aid and Technical Assistance for all Areas" has been increased from $2.41 billion to $2.475 billion.
3. "Economic Aid and Technical Assistance for the Middle East and Africa" has been increased from $136 million to $196 million.
4. "Economic Aid and Technical Assistance for the Arab States" has been increased from $17.5 million to $22.5 million.
5. "Economic Aid and Technical Assistance for Israel" has been increased from $25 million to $80 million.
6. "Economic Aid and Technical Assistance for South Asia" has been increased from $90 million to $150 million.
7. "Economic Aid and Technical Assistance for Southeast Asia and Pacific" has been decreased from $300 million to $245 million.
8. "Assistance to UNKRA", in the amount of $55 million, has been eliminated.
9. "Administration" has been reduced from $90 million to $75 million.

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[1] *Supra.*

[2] At the Secretary's Staff Meeting on Feb. 26, 1952, Merchant reported that there had been a meeting the previous day with the President to decide on what had to be done regarding proposals for an additional $55 million for Israel and additional $60 million for India and Pakistan, and Ambassador Locke's proposal to increase by $100 million the amount recommended for the Middle East region. The notes of the meeting read in part as follows: "The President decided that there would be no change in the ceiling of the program of $7.9 billion. He approved $55 million in addition for Israel, $60 million for India and Pakistan, and $5 million for the Middle East requests. $50 million of the $120 million additional will come from the military end-item program of $5.4 billion; $15 million will come from the administrative side; and $55 million will come from the elimination of a new request for UNKRA." It was felt that the UNKRA program could be handled by "other means". (Secretary's Staff Meetings, lot 63 D 375, "Documents Jan-Aug, 1952")

Necessary adjustments in programming should immediately be made to take into account these revised figures. I am attaching hereto a revised Annex A.

JOHN H. OHLY

Annex A (Revised)

SECRET [WASHINGTON,] February 25, 1952.

AID DISTRIBUTION FOR FY 1953

(In Millions of Dollars)

Area, Country of Type of Aid	
Military Aid for all Areas (Includes funds for U.S. produced end-items, for an estimated $1 billion of offshore procurement in Europe and for military training)	5350.0
Economic Aid and Technical Assistance for all Areas	2475.0
Europe(*)	1805.0
NATO and Germany Country Aid(†)	1400.0
Non-NATO Country Aid(†)(‡)	370.2
Miscellaneous(*)	34.8
Movement of European People	10.0
Technical Assistance	22.0
CARE	2.8
The Middle East and Africa	196.0
Palestine Refugees	65.0
The Arab States	22.5
Israel	80.0
Iran	25.0
Independent African Nations	3.5
South Asia	150.0
Southeast Asia and Pacific	245.0
Southeast Asia (includes $35 million for common use items)	130.0
Formosa (includes $35 million for common use items)	115.0
Latin America (includes contribution to OAS)	23.0
Miscellaneous	56.0
Multilateral Technical Assistance (excludes contribution to OAS)	16.0
Basic Materials Development	40.0
Administration	75.0

(*)Does not include $40 million for basic materials development which is listed separately. [Footnote in the source text.]

(†)Economic aid for Greece and Turkey are included in the non-NATO figure. [Footnote in the source text.]

(‡)Does not include any specific allowance for economic aid to Spain. [Footnote in the source text.]

Editorial Note

In a nationwide radio and television address on March 6, 1952, President Truman urged continuation of the Mutual Security program for fiscal year 1953 as "essential to advance our program of world peace and to protect the security of the United States." In order to implement the program, the President requested a Congressional allocation of $7.9 billion, $5,889 million of which would go to Europe in the form of direct military aid ($4,070 million) and defense support ($1,819 million). The text of the President's address is in *Public Papers of the Presidents of the United States: Harry S. Truman, 1952–1953* (Washington, 1966), pages 191–196.

Both the Senate Foreign Relations Committee and the House Foreign Affairs Committee began hearings on extension of the Mutual Security program on March 13. Secretary Acheson and Mutual Security Director W. Averell Harriman testified on behalf of the Administration request before the Senate committee on March 13; their statements are printed in the Department of State *Bulletin*, March 24, 1952, pages 463–471. Public hearings in the House lasted until April 29 and those in the Senate until April 4. The texts of the hearings are printed in House Committee on Foreign Affairs, *Mutual Security Act Extension. Hearings on H.R. 7005, March 13–April 29, 1952*, 82d Cong., 2d sess., and Senate Committee on Foreign Relations, *Hearings on Bill to Amend Mutual Security Act of 1951 and Other Purposes, March 13–April 4, 1952*, 82d Cong., 2d sess. During this period, officers of the Mutual Security Administration and members of the Joint Chiefs of Staff as well as General Alfred M. Gruenther, Chief of Staff, Supreme Allied Commander, Europe, testified in both open and executive sessions. For General Gruenther's statement and further testimony, along with a summary of the testimony in executive session of General Omar N. Bradley, Chairman of the Joint Chiefs of Staff, see volume VI.

On May 11, 1952, the House Foreign Affairs Committee reported out a $6.9 billion measure which, after floor debate and a further decrease of $726 million ($615 million of which was for economic aid for Europe) as a result of amendments proposed by Representative John Vorys (R.-Ohio), passed by a vote of 246–109 on May 23. A Senate bill, also authorizing $6.9 billion, passed May 28 by a vote of 64–10, with amendments by Senator Henry C. Dworshak (R.-Idaho) barring use of funds to publicize the Mutual Security program in the United States and by Senator James P. Kem (R.-Mo.) barring all aid to countries exporting strategic goods to the Communist bloc. A Conference report, without the Kem amendments, was approved by the House, 230–115, on June 5 and by the Senate,

59–11, on June 9. Public Law 400, the Mutual Security Act of 1952, was signed by President Truman on June 20, 1952 (66 Stat. 141). Documentation on the provisions and regional and functional breakdown of the funds allotted in Public Law 400 is in *Current Economic Developments*, Issue No. 361, June 16, 1952. (*Current Economic Developments*, lot 70 D 467)

700.5 MSP/3–1952

Memorandum by Leonard H. Price of the Office of Mutual Security Affairs to the Consultant to the Secretary of State (Cowen) [1]

SECRET [WASHINGTON,] March 19, 1952.

In compliance with your request, there is set forth below a summary of problems of current interest to S/MSA:

Far East

1. *U.S. organization for economic activities in Japan during the post-treaty period.*

This subject has been under discussion among officers of the Department of State, ODMS and MSA. It has now been agreed that officers of the Department and MSA should jointly outline the job to be done both in Japan and in Washington with respect to Japanese economic mobilization activities and to suggest possible areas of responsibility for State and MSA, taking into consideration the experience, staff and resources of each agency. A tentative draft of such an outline has now been prepared and is under active consideration in the Department.

2. *Administrative Agreement in Formosa.*

A draft Administrative Agreement designed to facilitate the operations of the United States MAAG personnel in Formosa has been prepared and approved by the Departments of State and Defense. Negotiations are now under way between our Embassy in Taipei and the Chinese Nationalist Government and it is expected

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[1] A covering memorandum from William J. McWilliams, Director of the Executive Secretariat, to Secretary Acheson, dated Mar. 21, 1952, reads: "When Ambassador Cowen took over on the Mutual Security Affairs job I urged him to get a complete inventory of the active problems for which he would have varying degrees of responsibility. He did this and the attached paper, which he gave me to read and asked me to pass to you, is such an inventory. Since this covers the waterfront without going into too much detail, I think it will be useful to you to look it over. Ambassador Cowen says there are one or two of these subjects which he would like to discuss with you after you have looked over the paper." Ambassador Cowen had responsibility for MSA from the latter part of March until his appointment as Ambassador to Belgium on May 10, 1952. No record of any discussion between Ambassador Cowen and Secretary Acheson as mentioned in the covering memorandum has been found in Department of State files.

that an agreement based upon the draft will be concluded within the next few days.

3. *End-Item Aid in Formosa versus Assistance in Obtaining Raw Materials now in Scarce Supply.*

An effort is being made by the Chinese National Government to obtain drawn steel and other strategic materials in scarce supply for use in the manufacture of armaments in local arsenals in Formosa. The Department of Defense has refused to approve China's first request for priority assistance in obtaining materials of this nature. In an effort to encourage the Formosan Government in the promotion of local manufacture of needed armaments, MSA has agreed to act as a claimant agency in presenting requests of the Chinese National Government for materials to be supplied on a reimbursable basis under Section 408(e) of the Mutual Defense Assistance Act.[2] The Department of State favors this agreement for the reason that the Chinese National Government will be inclined to provide greater cooperation in a program in which it is participating with its own funds. The Department of Defense has not yet formulated a definitive opinion respecting this arrangement, but FE feels that this situation may give rise to a basic question of policy in the near future.

4. *Application of Investment Guarantee Provisions (Section 520) of the Mutual Security Act of 1951.*[3]

Negotiations are now under way between officers of the Department and MSA on the one hand and the Chinese Embassy in Washington on the other hand looking to the establishment of satisfactory conditions for the application of investment guarantees to U.S. investments in Formosa.

5. *Economic Support Program in Indochina.*

In Indochina, the question of the $35 million economic support program has two unresolved aspects: (i) the composition of the program, and (ii) whether MSA or the MAAG will administer it. Neither Defense nor MSA has taken an adamant position on either question, steps to resolve the matters are progressing satisfactorily, and State is taking a neutral position, participating and assisting in discussions as appropriate.

6. *Agreement with Indonesia, under Section 511 of the Mutual Security Act of 1951.*

In Indonesia, the questions of both military and economic aid are affected by the recent Cabinet fall brought about by the Section 511 requirements of the Mutual Security Act of 1951. The next

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[2] Reference is to the Mutual Defense Assistance Act of 1949 (Public Law 329), approved Oct. 6, 1949. For the text of this Act, see 63 Stat. 715.

[3] For documentation on the application of investment guarantee provisions under the Mutual Security Act of 1951, see pp. 227 ff.

move, however, is up to the Indonesians. Unless they repudiate the Section 511(a) agreement signed by the Foreign Minister, we consider it binding.

7. *Development of Industrial Capabilities in non-Communist Asia.*

Efforts are being made to develop capabilities in this area for the production of military and para-military equipment for use both in the producing countries and elsewhere. Connected with this problem is, of course, the question of coordinating Japanese industrial capabilities with Southeast Asian raw materials. Data on this entire subject has now been assembled and is being discussed among the interested agencies, i.e., Defense, ODMS, MSA and State.

Near East and South Asia

1. *Locke proposal re Arab States and Israel.*[4]

The Locke proposal regarding the Arab States and Israel currently under consideration in NEA from the standpoint of type and total dollar aid, with detailed program justification.

2. *Iran.*

A temporary solution has been reached on leaving our military mission in Iran without renewing the agreement which expires on March 20th.

. . . . . .

4. *Middle East Command.*

Establishment of the Middle East Command and designation of participating countries. This question is being considered at the present time and a status statement is attached.[5]

5. *Egypt, Arms Aid to.*

Defense has agreed to join the Department in recommending to DMS the establishment of eligibility for Egypt to purchase arms under Section 408(e) of the Mutual Assistance Act. A memorandum is being forwarded to DMS requesting eligibility.

6. *Ethiopia.*

We have written Defense a letter asking their assistance in getting Ethiopia declared eligible for limited grant military aid under Section 202, which would also cover eligibility for reimbursable aid under Section 408(e), if approved by DMS.

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[4] Reference is to a proposed Middle East development program advanced by Edwin A. Locke, Special Representative of the Secretary of State and Ambassador to the Near East, 1951–1953. The proposal was discussed at length at the Secretary's Staff Meetings of May 1 and May 6, 1952, where a consensus was reached that it was at once too ambitious and too vague. At the May 6 meeting, Secretary Acheson revealed that he had talked to President Truman "and the President felt that it would be unwise to come up with an additional program at this time because of the very critical status of the Mutual Security Program Bill." (Secretary's Staff Meetings, lot 63 D 75, "Documents, Jan–Aug, 1952")

[5] Not printed.

Our discussions with Denmark on East-West trade matters are still pending and we have sent to Embassy Copenhagen joint State-MSA guidance on reaching an agreement with the Danes on the amount of dollar aid required to compensate for the denial of a tanker to Poland.

(b) *Economic Aid.*

Discussions with the Danes concerning the levels of US economic aid and Danish defense expenditures are still pending.

6. *Norway—Economic Aid.*

Discussions with the Norwegians on development of an accelerated military program in line with recommendations of the Wise Men Committee's [8] Screening and Costing Staff are under way. The receipt by Norway of $9.8 million additional economic aid for fiscal year 1952 plus Norway's healthy economic status warrant a higher level of performance by Norway in its defense build-up.

7. *France.*

(a) *US Aid to France.*

We must continue to follow various problems raised by the understanding reached with the French at Lisbon regarding US aid to France in 1951/52. During the coming months it will be necessary to work out the details of this commitment as it is related to the French defense effort and balance of payments.

(b) *Indochina.*

We are endeavoring to determine the relationship between additional French aid requirements in Indochina in fiscal years 1952 and 1953, and the overall program of US aid for France.

(c) *North Africa.*

The important current problems in this area affecting US interests are: 1) the question of our position in the event that the so-called Tunisian case is introduced in the Security Council; 2) implementation of the basic agreement with the French regarding US military bases in Morocco; and 3) the Moroccan case before the International Court.

(a) [*sic*] *Near Eastern Assistance and Defense.*

Discussions with the French regarding our Near Eastern assistance program will continue. The role that France will play in the defense of that area continues to be a problem under study.

8. *Switzerland—Reimbursable Military Assistance.*

The Swiss Federal Council is currently examining a proposed note which the Swiss Minister here drafted in consultation with the Department embodying the assurances which governments receiving reimbursable military assistance under Section 408(e) of the Mutual Defense Assistance Act of 1949, as amended, are required

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[8] Reference is to the Temporary Council Committee of the North Atlantic Council. For documentation, see vol. v, Part 1, pp. 1 ff.

by the Act to provide before sales of military equipment may be effected.

9. *Austria—Aid Figure for Fiscal 1953.*

MSA now advises that it will find it possible, subject to Congressional approval of the overall figure for foreign economic aid in fiscal 1953, to raise the Austrian aid figure from $80 million to $96 million, a figure which the Department still considers too low.

10. *Italy.*

(a) *Italian Defense Expenditures.*

In light of the refusal of the Italians to accept the recommendations of the NATO Wise Men Committee for an expenditure of $920 million in fiscal year 1952 and their indication that they will spend only at the rate of $810 million, MSA is considering holding back part of the economic aid available ($160 million plus $19.2 million for naval components). MSA has proposed that $24 million be withheld unless the Italians agree to increase the use of their resources for defense in fiscal year 1952 by 24 billion lire (approximately $38 million).

(b) *Economic Aid for Fiscal Year 1953.*

MSA originally proposed $75 million for economic aid to Italy. The Department has expressed doubts as to the economic validity and, more, the political feasibility of this figure. On the basis of Departmental objections, MSA has revised the estimate upward to $110 million.

(c) *Italian Arms to Egypt.*

It is becoming increasingly difficult for the Italian Government to refuse export permits for the shipment of arms and munitions to Egypt. Generally recipients of US arms have recognized the incongruity of making arms shipments to other countries at the same time they are receiving arms from the US. The Department, through its representatives in Rome, is seeking to dissuade the Italians from making such shipments. In the event of failure, the Department has indicated that it will make no objection should the British raise the matter before the NATO Council Deputies.

11. *Netherlands.*

(a) *End-Item Deliveries.*

Representatives of SHAPE and the Joint American Military Advisory Group and US representatives at The Hague have met with representatives on the Dutch side to try to reach agreement regarding end-item deliveries to enable the Dutch to participate with two divisions in the Allied maneuvers scheduled for next fall. At the present time it does not look as if the recommendations which SHAPE will make will relieve the Dutch of their worries with respect to filling out what they regard as minimum deficiencies for the two divisions. The Embassy continues to believe there is some danger that the Dutch may actually make some reduction in their conscript levies unless SHAPE is able to dissuade them from taking this action.

(b) *East-West Trade.*

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(b) *East-West Trade.*

The Dutch have decided not to delay further the shipping of some oil well equipment to Poland although the equipment is included in Category B under Title I of the Battle Act [9] (the category which applies to "petroleum, transportation materials of strategic value and items of primary strategic significance used in the production of arms, ammunition, and implements of war"). Their major argument has been that the shipment in question arises from a prior commitment and that, in their opinion, an exception could be granted under the Battle Act. We have to date not granted an exception but have consistently maintained the view that the Dutch should try to discover a basis for refusing to permit shipment. It is anticipated that we will have continuing difficulties with the Dutch, as with other COCOM countries, regarding shipments of this kind which involve long-standing contracts.

12. *Yugoslavia—East-West Trade Controls.*

At the suggestion of the Department, the Embassy in Belgrade has approached Yugoslav Government officials with the suggestion that they refer to the Department of Commerce's "Check-Lists" before permitting the sale of strategic materials to consignees who may engage in transshipment to the eastern bloc. Yugoslavian officials are exploring the suggestion. The Department is presently studying further means to strengthen Yugoslav trade controls, a task complicated by the recent decentralization of authority in trade matters to local enterprises.

13. *Regional Affairs (European).*

(a) *Airfields Agreement with France.*

We are considering a French proposed draft agreement covering necessary operating rights for the US Air Force in France in connection with the construction and operation of eight airfields and support facilities under the Ottawa agreement regarding second-slice infrastructure.

(b) *Agreement Regarding Contractual Procedures with France.*

We are considering a draft proposal submitted by the French stipulating the procedures under which contracts will be made and executed for construction of US military facilities in France under NATO plans.

(c) *Morocco Status of Forces Agreement.*

A US position on a French proposed draft agreement covering the status of our forces in Morocco is in preparation.

(d) *Protocol to NATO Status of Forces Agreement.*

It is understood that a working group in London is now trying to finalize the text of the protocol extending the NATO agreement on status of forces to cover Allied Headquarters.[10] Mid-March seems to

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[9] For documentation on the Mutual Defense Assistance Control Act (Battle Act) of 1951 providing for automatic termination of aid to any countries shipping strategic goods to Communist nations, see pp. 817 ff.

[10] Extensive documentation on the ongoing NATO status of forces negotiations is in Department of State file 740.5.

be the target date for completion. We have commented extensively on the drafts to date, but we have had no reaction to our latest views regarding the protocol's provisions on the matters of convertibility of currencies and exemptions from taxes. The existing text permits our headquarters to hold currencies of any kind and convert them into any other currencies; we feel it is too ambiguous and vague in defining the responsibilities of a headquarters and member countries. The last draft included no article regarding exemption of a headquarters expenditures from taxes. The US seems to be the only country urging the inclusion of such a provision; our suggestion is to include an article of the "most favored nation type" which will give a headquarters benefits of US bilaterals now being negotiated on taxes with other NATO members.

(e) *SHAPE-French Bilateral.*

As soon as the protocol referred to above is adopted, the Government of France and SHAPE intend to conclude their bilateral agreement regarding special conditions applicable for the establishment and operation of Allied Headquarters on French territory. We desire the inclusion of provisions giving SHAPE the maximum exemption obtainable from the payment of French taxes.

(f) *NATO Transport Planning.*

The NATO Council Deputies have under consideration a resolution to establish a Planning Board for European Inland Surface Transport (PBEIST). We have urged that the resolution be so worded that it is clearly understood that the PBEIST would confine its planning to inland surface transportation requirements in an emergency or war and that it not engage in any current operations.

(g) *NATO Petroleum Planning.*

The NATO Petroleum Planning Committee (PPC) is holding its first meeting in London at the end of this month. This planning organization was established recently by the Council Deputies to engage in wartime petroleum planning and to recommend readiness measures to meet a grave petroleum shortage in the event of war.

(h) *Wartime Food Planning.*

Informal exchanges of views with the UK have resulted in general agreement on the principles of a possible NATO wartime food planning group. The UK is now engaged in similar discussions with certain NATO members and the US is exchanging views with Canada. In view of their importance as food producing countries we are also keeping the Australians and the New Zealanders informed of these developments.

(i) *NATO Civil Aviation Planning.*

The UK has indicated a willingness to exchange views concerning the feasibility and desirability of undertaking NATO wartime civil aviation planning. These discussions will take place later this month in London.

(j) *Ocean Shipping Planning.*

The North Atlantic Planning Board for Ocean Shipping (PBOS) will hold its fourth and probably final meeting in Washington on May 12. This Planning Group has virtually completed its work.

(k) *Battle Act Exception Cases.*

All COCOM countries have submitted inventories of their outstanding commitments to ship Title I items under the Battle Act (items of primary strategic importance) to the Soviet bloc. . . . An interdepartmental Exceptions Working Group is considering each of these in order of prior commitment cases involving shipments from Italy.

(l) *Transit Trade.*

We are disturbed over continued reports of strategic goods reaching the Soviet bloc as a result of inadequate controls over transit movements through COCOM countries. The UK recently inaugurated licensing controls over the physical movement of goods in transit and urged the countries participating in export controls to adopt similar controls. COCOM, due largely to Dutch, Belgian and French opposition, turned down this proposal. We are gratified at reports of Belgian-Dutch negotiations understood to involve the adoption of licensing controls over the physical movement of goods transiting their countries. It is understood, however, that the Dutch are imposing a condition that the UK adopt financial controls, similar to those in the Netherlands, which the UK is known to oppose. If these differences are resolved and the Belgians and Dutch adopt licensing controls over transit movements, it should go a long way in plugging the breach in existing controls and would afford a basis for getting other countries to adopt similar measures.

14. *United Nations Affairs—UN Action on Korea in event of Armistice.*

If an armistice is concluded, we envisage the following steps in UN: a short resolution of the SC approving the armistice and referring the problem of a political settlement to a special session of the GA; the GA would designate six or seven countries from among those fighting in Korea to act on behalf of the UN in participating in a conference with the Chinese Communists and North Koreans confined to a political settlement of Korea (the tentative list is US, UK, France, Australia, Thailand, Turkey and Colombia). The GA would invite the USSR to participate, but not on behalf of the UN. Preliminary consultations with the UK, France and the older Commonwealth countries reveal 1) an inclination on their part to include India in the conference; 2) a desire to explore the problem confidentially with the USSR, preferably before an armistice; and 3) a reluctance to include in the SC and GA resolutions references to previous UN action, to Chinese "aggression", to the consequences of a breach of the armistice, etc., on the ground that these "provocative" portions might prejudice Soviet participation in a settlement.

Legal Problems

1. *Legislation.* The Department of State participated with Defense, MSA, ODMS and Budget in the formulation of the Executive

Branch's proposals for the Mutual Security Act of 1952.[11] This involved the formulation of basic policy positions regarding the future course of the program, the preparation of presentation materials, the briefing of witnesses, and the drafting of legislation. The draft bill (H.R. 7005) was introduced in the House by Mr. Richards [12] on March 11, 1952.

2. *Spain.* The Department worked with MSA and Defense to complete the preparation of a draft bilateral agreement to cover the furnishing of military and economic assistance to Spain pursuant to the provisions of the Mutual Security Appropriation Act, 1952.[13] The drafting of this agreement reached its final stages in mid-March, with negotiations scheduled to begin when our Ambassador arrives in Madrid.

3. *Taxes.* Negotiation of agreements with the NATO countries (except Canada and Iceland) to provide relief from readily ascertainable taxes on U.S. expenditures in the common defense effort reached the final stages in late February and early March. By March 18th three agreements had been concluded and substantial agreement on most major issues had been reached in the case of the six others, with signature expected shortly.

4. *Anti-attachment.* Agreements had been reached with almost all countries receiving assistance under the Mutual Security Act that they would undertake mutually agreeable procedure to safeguard all funds allocated to or derived from any U.S. assistance program as specified in Section 515 of that Act. Four countries which were asked to provide this assurance have not yet fully complied: Mexico, Venezuela, Burma, and the United Kingdom. In the case of the United Kingdom somewhat limited assurances were provided, on the understanding that the United States might resume negotiations for more complete coverage. It is expected that negotiations with the other three countries will all result in obtaining an assurance in accordance with the Act.

In almost all of these countries, however, the specific procedures which will be necessary in order to provide the desired protection are yet to be worked out, and detailed studies must be undertaken to determine what protection is required in the light of the types of funds involved in any particular country and the varying systems of creditors' rights which may jeopardize these funds.

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[11] For information on the Mutual Security Act of 1952, see the editorial note, p. 470.

[12] Representative James P. Richards (D.-S.C.), Chairman, House Foreign Affairs Committee, 1951–1953.

[13] For information on appropriations to carry out the Mutual Security Act of 1952, see the editorial note, p. 470.

Publication Information

1. The observance of the third anniversary of the North Atlantic Treaty involving (a) a ceremony in Washington with participation of high government officials and attendance of distinguished guests and others on April 4 at the Inter-departmental Auditorium; (b) the special NATO postage stamp issue involving possible participation of the President in the advance notices of first day of sale.

2. Tour now in progress by eleven correspondents from NATO countries to observe the defense buildup and other aspects of the United States.

3. Continuation of the above project to bring 60 additional NATO correspondents to the U.S. for this same purpose between now and July 1, 1952.

4. Establishing a flow of information from the field concerning the defense buildup, determination to defend themselves, etc., in the countries recipient of military assistance from the United States (Mr. Francis Russell, Director of Public Affairs for the State Department, is now in Europe making these arrangements under a recommendation by PIC).

5. Reinstating the project lately canceled by the Department of Defense to take American correspondents, radio commentators, editors and other key leaders to Western Europe to witness the progress of the defense buildup there.

6. Working out plans for coverage by means of news stories and photographs of the trainees from foreign countries now in the U.S. for use in the press of the countries which they represent here.

7. A domestic information program on the Mutual Security Program shortly to be proposed to Congress by the President.

Reimbursable Aid Program

Efforts are being made by State and Defense to expand the categories of countries which may submit requests for Reimbursable Assistance directly to Defense rather than through State to Defense.

ECA-MSA Executive Assistant's files, FRC 55 A 79, box 186, "W. Averell Harriman"

Memorandum by Theodore Tannenwald, Jr., of the Office of the Director of Mutual Security to the Director of Mutual Security (Harriman)

RESTRICTED [WASHINGTON,] March 25, 1952.

I believe that over the course of the next two or three weeks you should personally visit each member of the Senate Foreign Relations Committee and the House Foreign Affairs Committee. Par-

ticularly with those members of the House Committee who are relatively unknown, a visit from you will be most effective. In addition, I believe you should see a few members of the Senate Armed Services Committee. I believe you should establish certain priorities for your visits, as follows: [1]

First Priority—those whom you should have lunch or dinner with alone—

Tom Connally, Chairman, Senate Foreign Relations
Walter F. George, Senate Foreign Relations, and Chairman, Senate Finance
Richard B. Russell, Chairman, Senate Armed Services
Alexander Wiley, Ranking Minority Member, Senate Foreign Relations
John J. Sparkman, Senate Foreign Relations
Brien McMahon, Senate Foreign Relations
James P. Richards, Chairman, House Foreign Affairs
Mike Mansfield, House Foreign Affairs
John M. Vorys, House Foreign Affairs
Walter H. Judd, House Foreign Affairs

Second Priority—those to whom you will want to pay more than a brief visit—

Guy M. Gillette, Senate Foreign Relations
H. Alexander Smith, Senate Foreign Relations
Laurie C. Battle, House Foreign Affairs
A. A. Ribicoff, House Foreign Affairs
Brooks Hays, House Foreign Affairs
Franklin D. Roosevelt, Jr., House Foreign Affairs
Frances P. Bolton, House Foreign Affairs
Charles A. Eaton, Ranking Minority Member, House Foreign Affairs
Jacob K. Javits, House Foreign Affairs
Lyndon B. Johnson, Senate Armed Services
Russell B. Long, Senate Armed Services
Wayne Morse, Senate Armed Services
H. Styles Bridges, Senate Armed Services
William F. Knowland, Senate Armed Services

Third Priority—those members of the Senate Foreign Relations and House Foreign Affairs Committees who are not covered by the above—

Theodore Francis Green, Senate Foreign Relations
J. W. Fulbright, Senate Foreign Relations
Bourke B. Hickenlooper, Senate Foreign Relations
Henry Cabot Lodge, Jr., Senate Foreign Relations

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[1] On the following three lists the handwritten notation "Visit" appears next to the following names: Senators Connally, Sparkman, Gillette, Smith, Green, Fulbright, Hickenlooper, Lodge, Tobey, and Brewster. The handwritten notation "Dinner" appears next to the following names: Senators Wiley and McMahon, and Representatives Richards, Mansfield, and Vorys.

Charles W. Tobey, Senate Foreign Relations
Owen Brewster, Senate Foreign Relations
Thomas S. Gordon, House Foreign Affairs
Thomas E. Morgan, House Foreign Affairs
A. S. J. Carnahan, House Foreign Affairs
Thurmond Chatham, House Foreign Affairs
Clement J. Zablocki, House Foreign Affairs
Omar Burleson, House Foreign Affairs
Chet Holifield, House Foreign Affairs
Edna F. Kelly, House Foreign Affairs
Henderson Lanham, House Foreign Affairs
Robert B. Chiperfield, House Foreign Affairs
Lawrence H. Smith, House Foreign Affairs
Chester E. Merrow, House Foreign Affairs
James G. Fulton, House Foreign Affairs
Donald L. Jackson, House Foreign Affairs
Christian A. Herter, House Foreign Affairs
B. Carroll Reece, House Foreign Affairs

I am attaching hereto a memorandum indicating the points that are of most concern to the individuals listed above.

THEODORE TANNENWALD, JR.

[Attachment]

RESTRICTED [WASHINGTON, undated.]

POINTS OF CONCERN TO MEMBERS OF CONGRESSIONAL COMMITTEES ON 1953 MUTUAL SECURITY PROGRAM [2]

First Priority.

1. Senator Connally:

a. "Economic Aid" to Europe. The Senator believes we are "giving away" our dollars to those who are too lazy to do anything for themselves, France in particular. Large groups of Texans share this opinion.

b. Administration's "misuse" of powers granted to it, in particular the transfer power.

c. Reductions in the funds.

2. Senator George:

a. Obligations and expenditures for all programs, including projected plans for the 1953 program. His greatest concern appears to be that we cannot and do not use the money we have received. His position on this matter will determine his position on reductions in amounts.

3. Senator Russell:

[2] Copies were sent to Gordon, Wood, Ohly, and Eichholz.

a. His principal concern is that the *scope* of assistance is increasing, not decreasing. His approach is best expressed in Section 503 of the Act of 1951, limiting the scope of aid after June 30, 1952. Some discussion with him on defense support for Europe, and the scope of assistance outside Europe would be advisable. He probably favors a reduction in amount.

b. Management of the Program so as not to impede the military in its performance. There has been no mention of this problem thus far, but it may be advisable to sound out the Senator on this matter.

c. Personnel reduction. Senator Russell was largely responsible for Sec. 504(d) in the Act of 1951. He may feel that further reductions are necessary.

4. Senator Wiley:

a. The amount of the request vis-à-vis the expected deficit. It may be advisable to emphasize to the Senator that the cost of security is a first priority; it is not "can we afford it?" but "can we afford not to afford it?"

5. Senator Sparkman:

No special points. However, the Senator has predicted a $1 billion cut, but has not specifically said he would advocate it.

6. Senator McMahon:

a. The Senator will support the program. Discussions with him might center around the key arguments in support of the program, particularly why defense support is necessary.

7. Chairman Richards:

a. Reduction in amounts. Mr. Richards will, in all probability, sponsor or join in some proposal to reduce the funds, not a crippling reduction, but one he can and will defend on the floor. It will be difficult to convince him that some reduction is not possible. The full amount should be urged, without question, but not in such a way that would prevent us from supplying him with cogent arguments to support the amount finally recommended by the Committee.

b. Defense support. The distinction between OSP, AMP, and defense support should be clarified. Mr. Richards will back defense support funds as he did last year. Emphasis should be placed on viewing defense support as the assistance necessary to produce a total economic effort for defense. His speech of last year (*Congressional Record,* August 16, 1951, pp. 10358–63) is indicative of the points that can be made, as follows:

1) Production of military equipment requires plants, raw materials, tools, transportation, power, men, wages, food and all the things that are components of a total economic organism.

2) The build-up must be kept going. The alternatives are: (1) lengthen the time, (2) have less defense, or (3) supply *all* the arms ourselves and accept the continuing burden.

3) A distinction between "ERP" aid and "defense support" is artificial and meaningless; all the productive resources must be joined together to build strength.

Mr. Richards is concerned that defense support items not directly used in military production will be difficult to defend.

c. Attaching conditions. Mr. Richards will look at any proposals of this sort carefully. It would be well to emphasize our own efforts to administer the Program so as to achieve our objectives; and to emphasize the strait-jacket that additional conditions impose.

d. The personnel reduction, particularly the basis for calculating it: including technical assistance personnel and not limiting the reduction to administrative personnel.

8. Congressman Mansfield:

He will actively support the program. His concern is to build the record in the testimony, and to have material available for his own use, on the following points:

a) That the European nations, particularly France, are doing everything possible to assist the common effort—in Europe and wherever they have commitments.

b) Assistance is essential to the security of the free world.

Supporting arguments on these points, particularly the first one, would be helpful to him.

9. Congressman John M. Vorys:

a. "Economic aid". Mr. Vorys is convinced that defense support assistance is merely "Marshall Plan giveaway" under a defense label. It will be difficult to persuade him otherwise, but the effort should be made. He is willing to support defense support items used directly for military production (AMP type) but not other commodities.

b. Loans. Mr. Vorys may move to increase the percentage of assistance in loans. Although this question has not yet arisen, it might be well to go into it with Mr. Vorys.

c. Conditions. Mr. Vorys will probably want to write additional conditions into the legislation, particularly on European integration. He is quite concerned that Europe is not "integrating" under our urging and that it must do so.

d. India. This question has not been raised yet, but Mr. Vorys will be very concerned when the India program is laid out. His principal concern will be that we are buying a share in the Colombo Plan.

e. Taxes. Mr. Vorys was personally concerned with this matter last year. It might be wise to go into the results of the tax negotia-

tions fully with him to see whether he is satisfied with it and what further we might expect.

f. Personnel reduction. He is concerned that we are over the limit. The base of calculation should be explored with him.

g. The additional cost of equipping 20 odd divisions. He makes the point that for our expenditures thus far we have created about 25 divisions "combat ready"; why does it require several times our present expenditure to get another 20 odd ready?

10. Congressman Walter H. Judd:

a. Dr. Judd's principal concern is that the Point IV program is becoming a commodity program. We have said that this is not the case. This question should be explored with him fully.

b. Considerable concern with Asia and its importance. His attitude on continuing MSA programs in Southeast Asia might be explored.

11. Congressman Jacob K. Javits: [3]

a. Financing opportunities in underdeveloped countries. Mr. Javits wants to be sure we are doing all that can be done to push this matter.

b. Relatively small amount of money for underdeveloped countries. Mr. Javits' concern is primarily to build a good defense for this type of expenditure. He would probably prefer to see more of this type of money in the program. Exploring with him some of the reasons behind our estimates and some additional assurances of our close attention to this side of the program would be helpful.

c. Mr. Javits' attitude on authority to continue Southeast Asia programs might be explored.

Second Priority.

1. Senator Guy M. Gillette:

a. The Senator's principal concern seems to be with amounts: justifying the request; why we cannot use the full amounts we do get, and where reductions can be made.

b. He is especially concerned with transferability—presently opposes on ground that permits much too great latitude (including 5% intra-title and 10% inter-title).

2. Senator H. Alexander Smith:

a. Senator Smith's major concern is with our use of the money, and whether reductions can be made on the basis of past performance.

b. His attitude on authority to continue MSA programs in Southeast Asia might be explored.

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[3] An unidentified handwritten notation on the margin opposite Congressman Javits' name reads: "Second priority".

c. Senator Smith last year sponsored an organization plan similar to the House plan. The words "unified direction of program" are of considerable concern to him. It would be well to go over in some detail the organizational arrangements, personnel reductions, etc. Overlapping and duplication in overseas operations is a special concern of his.

3. Congressman A. A. Ribicoff:

a. Conditions in the legislation. We should indicate our difficulties with Section 511, and discuss with him suggested changes he has asked us to prepare.

b. Commitments of other countries to support us. He is concerned that the United States is widely committed all over the world, but other countries have limited commitments to us.

c. Ability to use the money granted by Congress: unobligated and unexpended funds.

d. Reporting procedures. Mr. Ribicoff thinks too many reports are required and too much time consumed in preparing them.

e. Personnel reductions. He believes there are too many people in Europe, living too well.

4. Congressman Brooks Hays:

a. The Point IV Program. We should assure Mr. Hays of our concern with the underdeveloped countries and our desire to push the Point IV Program. He is ready to support the whole program.

b. Mr. Hays is concerned that our program—in the eyes of the world—is giving the impression we are making war and raising a crop of millionaires in Europe. Some assurances to him that *people* are benefitting, are doing their utmost, and that we are trying to assist *people* would be helpful.

5. Congresswoman Frances P. Bolton:

a. European tax systems and the implication that we are carrying the burden.

b. Our information system and its inadequacies.

6. Congressman Charles A. Eaton:

Dr. Eaton's concern is not with details but with the fundamental principles:

a. Is our security threatened? He believes it is.

b. Do we need to have all this money, and can we accomplish our purposes with it?

He had doubtless already answered these questions affirmatively for himself. Some additional discussion with him on these points would, however, be worthwhile.

Third Priority.

1. Senator Theodore F. Green:

Senator Green's concerns are two:

a. The "man in the street" is not benefitting from our assistance.

b. European integration is lagging.

2. Senator J. W. Fulbright:

a. Senator Fulbright's main concern at the moment is that the TCA programs are putting equipment into the hands of people who do not know how to use it, and for whom it is unsuitable.

b. He has a great and long-standing concern about political unification and would support conditions in the legislation on this point.

3. Senator B. B. Hickenlooper:

a. The extent of U. S. commitments in Europe, ultimately requiring large-scale United States forces.

b. The increasing size and scope of foreign assistance programs and our ability to afford them in view of present and expected deficits.

4. Congressman Omar Burleson:

a. There is too much money in the program. Mr. Burleson would favor reductions.

b. Mr. Burleson appears to feel that we are not doing enough about getting strategic materials from overseas territories.

5. Congresswoman Edna F. Kelly:

a. Israel programs.

b. Extent to which we permit collectivization and religious persecution in Yugoslavia.

6. Congressman Robert B. Chiperfield:

a. Amount of money involved. Mr. Chiperfield thinks it is too much.

b. Use of counterpart for military purposes. Mr. Chiperfield would favor using all counterpart for military purposes.

c. Duration of the program. Mr. Chiperfield feels we are getting in deeper and that there is no end in sight. He will support reductions in the amounts.

7. Congressman Lawrence H. Smith:

a. The reported $300 billion NATO military budget. Mr. Smith still believes the press would not report this if there were no truth in it.

b. Inability of the United States to afford the cost involved. Mr. Smith has in the past urged large cuts in funds and will probably do so this year.

c. Lack of increase in the standard of living. Mr. Smith is concerned that with tremendous production increases the "little man" is no better off than before.

8. Congressman Chester E. Merrow:

a. Lack of European integration. Mr. Merrow feels we should begin to enforce integration.

b. Size of the authorization request: a concern that with large unexpended and unobligated amounts we do not need the amount we are asking for.

c. Fiscal reform. Mr. Merrow feels we should have fiscal reform probably as a condition of aid. His concern is that we are not using our aid to accomplish any of these necessary tasks.

9. Congressman James G. Fulton:

a. The guaranty program and its operation.

b. Sale of surplus ships rather than subsidizing of European shipbuilding.

c. Foreign competition arising from increased European productive capacity.

700.5 MSP/3-2752

Memorandum by the Consultant to the Secretary of State (Cowen) to the Secretary of State

CONFIDENTIAL WASHINGTON, March 27, 1952.

Subject: The Responsibility of the Department of State for the Mutual Security Program.

Discussion

During the last two or three weeks I have been giving extensive and detailed thought to the effectiveness with which the Department is exercising its responsibility under existing legislation to assure that the various Mutual Security programs conform to the objectives of American foreign policy.[1] A brief review of the Department's previous role concerning the aid programs might be useful as background for the present unfortunate situation. Since the programs of military assistance were first established by the Congress there have been at least a half-dozen men who for more or less brief periods have exercised the Department's authority. This authority has varied all the way from little more than a liaison responsibility to the high point of S/ISA under Mr. Cabot, who was given a degree and extent of responsibility which few officers in the Department have ever had. Unfortunately, Mr. Cabot appears to have allowed his authority to slip from his hands into those of a number of other people, with the result that the Department never exercised the leadership and control with which it was charged by the Congress. Following the unhappy S/ISA experiment, the Mutual Security Act gave coordinating and operational authority over the aid programs to the Director of Mutual Security.[2] The act

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[1] See footnote 1, p. 471.

[2] See the memorandum by Sheppard, Oct. 27, 1951, p. 460.

did, however, specifically reassert the control of the Secretary of State over the conduct of foreign relations. To meet this situation, S/MSA was established. As far as economic aid programs are concerned, the history of the relations between the Department and the ECA are too well known to call for any description.

I find that at present the Department is not exercising its proper role in the Mutual Security programs. This situation arises from a number of facts. In effect there is no longer a staff which works with these problems, due to numerous changes of leadership, personnel, and authority. Each geographical bureau tends to run its own part of the aid programs without reference to the other parts of the world and without any strong coordinating force from above. As a result, each of the bureaus deals directly with the Director of Mutual Security, MSA, Defense, and other concerned agencies. Any coordination which can be taken to represent the voice of the Department is purely coincidental. I do not mean to imply that the bureaus are not working effectively for their own areas: for example, the RA Office in EUR is doing a superb job, but necessarily it is concerned with its own regional interests rather than the global aspects of the aid programs as instruments of foreign policy. I find that quite naturally an outside agency might get one answer from one bureau and a second answer from another. As a result the other agencies are more or less consistently confused as to what the views of the Department are and they are normally irritated at not being able to come to one focal point. Somewhat to my surprise, I have found an amazing amount of desire in many quarters in Washington for stronger leadership and more effective guidance from the Department and an inability to understand why the Department does not assert itself. For example, in some of the briefings which Mr. Harriman received from his staff prior to his presence before the Congress, I noticed that many decisions which were taken were made subject to the approval of the Department. In brief, I believe that the Department leadership in the aid programs can and should be reasserted but I also believe it can only be done by a drastic tightening up of our own internal organization.

Two ways of accomplishing this objective occur to me. The first one would be a new Departmental directive on the functions and authority in S/MSA which would make it clear beyond any shadow of a doubt that directive and coordinating authority for the discharge of the Department's responsibility in the aid programs resides in S/MSA, that all Mutual Security matters must be cleared through that office, and that the office is the point of contact for other agencies with the Department. Any such directive should of course be brought to the attention of the other agencies.

There is another solution which offers advantages in view of the previous piebald record of the Department in exercising its authority on these matters. This solution would be to request the Congress to write into the legislation authority for the creation of a new Assistant Secretary of State for Mutual Security. This position would be authorized to continue for the duration of the aid programs and would automatically go out of existence with their termination. The principal advantage I see to this solution is that the position would carry a title and authority of long and recognized status in the hierarchy. The titles which have been used for this position have been either extemporaneous invention and, therefore, lacking the necessary weight, or they have become so hackneyed through casual use or misuse to a point where they have largely become meaningless. In my experience I have noticed that conventional titles and designations have generally been more effective. I am convinced that the Congress could with little difficulty be persuaded to write such a provision into the legislation now under consideration and I also believe that the position would greatly facilitate and improve effective coordination within the Department.

Recommendation:

That you either authorize the issuance of a Departmental announcement greatly strengthening the authority of S/MSA, as outlined above, or approve asking the Congress to authorize a new Assistant Secretary of State for Mutual Security Affairs.[3]

MYRON M. COWEN

[3] Enclosed with the source text was a one and one-half page draft Department Announcement formally designating Ambassador Cowen as Special Assistant to the Secretary of State for Mutual Security Affairs, and outlining in some detail the nature and scope of the position. Examination of the Department of State *Bulletin* and of Department of State Press Releases for this period gives no indication that this draft Announcement was ever released.

700.5 MSP/3-2052

Memorandum by the Director of the Management Staff of the Department of State (Heneman) to the Secretary of State [1]

[WASHINGTON,] March 19, 1952.

Subject: Notes for Meeting with Mr. Harriman.

[1] A covering memorandum from Heneman to Battle, dated Mar. 19 reads: "Luke: Pursuant to our telephone conversation of this morning, I am attaching a memorandum for the Secretary's information for his discussion with Mr. Harriman this afternoon. As you know, Mr. Harriman indicated in his call of yesterday that he desired to discuss item 1 in the attached. We were informed that he may also bring up items 2 and 3. If you do not find the attached adequate for your use in briefing the Secretary, we will be glad to be of further assistance."

Mr. Harriman has called indicating he wishes to discuss the subject set forth in item 1 below. We are informed that he may also bring up the subjects discussed in items 2 and 3. For your use in discussion with Mr. Harriman, certain relevant information on each of these points is summarized below.

1. *Proposed executive order on the role of the Chief of Diplomatic Mission for Mutual Security activities (Attachment A).*

a. This is the proposed executive order concerning the role of the Chief of Diplomatic Mission which was discussed with you by representatives of the Bureau of the Budget, and which you approved, immediately prior to your departure for the Lisbon conference.[2] In the present draft, Section 1(a)(1) provides that the Chief of Diplomatic Mission shall exercise "general direction and leadership" of the entire Mutual Security Program at the country level. Mr. Harriman has proposed substituting "general supervision" for "general direction." We understand that this suggestion has been made primarily at the insistence of Mr. Kenney.

b. The Departments of State and Defense and the Bureau of the Budget have accepted the words "general direction." The Bureau of the Budget feels that it would be a mistake to weaken what is implied by those words by substituting "supervision" for "direction", although the Bureau would undoubtedly accept your views in this matter.

c. The significance of the proposed change in the views of your staff and the Bureau of the Budget is that it reflects an attitude which would weaken the role of the Chief of Diplomatic Mission and represents a step backward from recent developments with respect to the functions and role of the Ambassador.

2. *Extending the proposed executive order (Attachment A) to include a reference to Ambassador Draper's role.*

a. We are informed that Ambassador Draper has proposed that this order define his relationships with the country level missions. The Bureau of the Budget has refused to include this matter in the present order on the grounds that the proposed executive order deals with procedures and relationships at the country level on a global basis and is not confined to Europe. It is the view of your staff that Ambassador Draper's relationships with the country missions should be defined and stated when his Terms of Reference are revised.

[Here follows item 3, "Legislative authorization for information media guarantees".]

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[2] For documentation on the Ninth Session of the North Atlantic Council at Lisbon, Feb. 20–25, 1952, see vol. v, Part 1, pp. 107 ff.

Attachment A

Draft Executive Order

[WASHINGTON,] February 15, 1952.

OVERSEAS COORDINATION PROCEDURES UNDER SECTION 507 OF THE MUTUAL SECURITY ACT OF 1951

By virtue of the authority vested in me by section 507 of the Mutual Security Act of 1951, 65 Stat. 373 (Public Law 165, 82nd Congress, approved October 10, 1951), and as President of the United States and Commander in Chief of the armed forces of the United States, it is ordered as follows:

Section 1. *Functions of the Chief of the United States Diplomatic Mission.* (a) The Chief of the United States Diplomatic Mission [3] in each country, as the representative of the President and acting on his behalf, shall coordinate the activities of the United States representatives including the chiefs of US economic missions, MAAGs and other US agency representatives [4] in such country engaged in carrying out programs under the Mutual Security Act of 1951 (hereinafter referred to as the Act) and he shall assume responsibility for assuring the unified development and execution of the said programs in such country. More particularly, the functions of each Chief of US Diplomatic [5] Mission shall include, with respect to the programs and country concerned:

(1) Exercising general direction and leadership of the entire effort.

(2) Assuring that recommendations and prospective plans and actions of the United States representatives are effectively coordinated and are consistent with and in furtherance of the established policy of the United States.

(3) Assuring that the interpretation and application of instructions received by the United States representatives from higher authority are in accord with the established policy of the United States.

(4) Guiding the United States representatives in working out measures to prevent duplication in their efforts and to promote the most effective and efficient use of all United States officers and employees having mutual security responsibilities.[6]

(5) Keeping the United States representatives fully informed as to current and prospective United States policies.

[3] The parenthetical phrase "hereinafter referred to as the Chief of Mission" has been deleted from the source text at this point.

[4] The handwritten phrase "including the chiefs of U.S. economic missions, MAAGs and other US agency representatives" was added to the source text.

[5] The handwritten words "US Diplomatic" were added to the source text.

[6] The following words were added to the source text: "all United States officers and employees having mutual security responsibilities."

(6) Prescribing procedures governing the coordination of the activities of the United States representatives, and assuring that these representatives shall have access to all available information essential to the accomplishment of their prescribed duties.

(7) Preparing and submitting such [7] reports on the operation and status of the programs under the Act as may be [8] directed by the Director for Mutual Security.

(b) Each Chief of US Diplomatic [9] Mission shall perform his functions under this order in accordance with instructions from higher authority and subject to established policies and programs of the United States.

(c) No Chief of US Diplomatic [9] Mission shall delegate any function conferred upon him by the provisions of this order which directly involves the exercise of direction, coordination or authority.[10]

Section 2. *Referral of unresolved matters.*

The Chief of US Diplomatic [9] Mission in each country shall initiate steps to reconcile any divergent views arising in the country concerned with respect to programs under the Act. If agreement cannot be reached the Chief of US Diplomatic [9] Mission shall recommend a course of action, and such course of action shall be followed unless a United States representative requests that the issue be referred to higher authority for decision. If such a request is made, the parties concerned shall promptly refer the issue [11] to higher authority for resolution prior to taking action at the country level. The Director for Mutual Security shall assure expeditious decisions on matters so submitted.

Section 3. *Effect of order on United States representatives.*

(a) All United States representatives in each country shall be subject to the authority conferred upon the Chief of US Diplomatic [9] Mission in such country by section 507 of the Mutual Security Act of 1951 and by this order.[12]

(b) Subject to compliance with the provisions of this order and with the prescribed procedures of their respective agencies, all

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[7] The word "periodic" was deleted and the word "such" substituted in the source text.

[8] The handwritten words "may be" were added to the source text.

[9] The handwritten words "US Diplomatic" were added to the source text.

[10] The following handwritten words were added to the source text: "which directly involves the exercises of direction, coordination or authority."

[11] The following words were deleted from the source text at this point: "jointly submit a written statement", and the handwritten words "promptly refer the issue" were substituted.

[12] The words "this order" were deleted from the source text at this point, and the handwritten phrase "section 507 of the Mutual Security Act of 1951 and by this order" was substituted.

United States representatives affected by this order, (1) shall [13] have direct communication with their respective agencies and such other[14] parties and in such manner as may be authorized by their respective agencies, (2) shall keep the respective Chiefs of US Diplomatic[15] Missions and each other fully and currently informed on all matters, including prospective plans, recommendations, and actions, relating to programs under the Act, and (3) shall furnish to the respective Chiefs of US Diplomatic[15] Missions, upon their request, documents and information concerning the said programs.

Section 4. *Further coordination procedures.* The Director for Mutual Security shall be responsible for assuring the carrying out of the provisions of this order. He is authorized,[16] after consultation with the interested Government agencies, to[17] prescribe any additional procedures he may find necessary to carry out the provisions of this order.

Section 5. *Prior orders.* (a) To the extent that provisions of any prior order are inconsistent with the provisions of this order, the latter shall control, and any such prior provisions are amended accordingly. All orders, regulations, rulings, certificates, directives, and other actions relating to any function affected by this order shall remain in effect except as they are inconsistent herewith or are hereafter amended or revoked under proper authority.

(b) Nothing in this order shall affect Executive Orders Nos. 10062, 10063[18] and 10144 of June 6, 1949 and July 21, 1950, respectively.

(c) Executive Orders Nos. 9857, 9862, 9864, 9914, 9944, 9960, 10208, and 10259 of May 22, 1947, May 31, 1947, May 31, 1947, December 26, 1947, April 9, 1948, May 19, 1948, June 13, 1949, January 25, 1951, and June 27, 1951, respectively, are hereby revoked.

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[13] The word "may" was deleted from the source text at this point, and the handwritten word "shall" was substituted.

[14] The word "such" was deleted from the source text at this point, and the handwritten words "their respective agencies and such other" were substituted.

[15] The handwritten words "US Diplomatic" were added to the source text.

[16] The word "shall" was deleted from the source text, and the handwritten words "is authorized" were substituted.

[17] The handwritten word "to" was added to the source text.

[18] The handwritten number "10063" was added to the source text.

700.5 MSP/3-2052

Memorandum by the Special Assistant to the Secretary of State (Battle) [1]

CONFIDENTIAL WASHINGTON, March 20, 1952.

The Secretary met yesterday afternoon with Mr. Harriman, Mr. Draper, Mr. Batt, Mr. Nash and Mr. Perkins. The Secretary told me following the meeting a little of the discussion on the questions which Mr. Heneman has raised in the attached memorandum.[2]

With regard to item 1 (the question of "general direction and leadership" versus "general supervision"), the Secretary said that Mr. Harriman plead for the Secretary to give in on the point and agree to Mr. Harriman's wording. The Secretary said he declined to do this but agreed to think it over. They mentioned that some other wording may be found which would solve the problem, although to my knowledge no such wording was suggested. The Secretary said he could take care of any problem arising with specific individuals by instructions to them and he felt that no problem of keeping them in line would necessarily arise. The Secretary has agreed to consider this whole question but he is inclined to think that he is fighting a losing battle and does not consider that the wording Mr. Harriman has in mind would be a serious loss.

With regard to item 2 (the question of extending the proposed Executive Order to include a reference to Ambassador Draper's role), the Secretary said that Mr. Harriman had withdrawn his request on this subject.

With regard to item 3 (legislative authorization for information media guarantees), the Secretary said that he was a little confused about this whole question and he was a little uncertain as to just what our position was versus Mr. Harriman's position. He said Mr. Harriman wanted this provision in the law, with the State Department administering it. Perhaps Mr. Perkins can provide more information on the discussion on this point. From the Secretary's remarks to me, I gather it was rather inconclusive.

LDB

[1] A handwritten notation on the source text reads: "Mr. Humelsine, Mr. Perkins".
[2] Reference is to the memorandum by Heneman of Mar. 19, 1952, p. 492.

Editorial Note

On April 4, 1952, President Truman issued Executive Order 10338 entitled "Coordination Procedures Under Section 507 of the Mutual Security Act of 1951." This Order was identical, save for

minor technical changes, to the Draft Executive Order, with handwritten changes, page 494. The text of Executive Order 10338 is in 17 *Federal Register* 3009.

A/MS files, lot 54 D 291, "Org. and Admin. of For. Aid Program"

Memorandum of Telephone Conversation, by the Personal Secretary to the Secretary of State (Evans)

RESTRICTED [WASHINGTON,] March 20, 1952.

Secretary Acheson telephoned, first to Mr. Harriman who was in Florida and therefore the Secretary did not speak to him, then to Mr. Kenney. He said he had told Mr. Harriman he would reconsider the wording of the executive order applying to MSA operations abroad, with reference to whether he would be willing to have "general supervision" substituted, as Mr. Harriman wished, for the standard wording "general direction and leadership". He said he had reviewed the matter now and felt he could not change the wording which he had so strongly advocated in past instances, and that he could not see any reason why it should be changed in this instance.

The Secretary said he proposed to let the draft go to the President, asking the Budget Bureau to inform the President that there had been some criticism of the language as it stood, but that he, the Secretary, would not send a memorandum along arguing his side of the matter.

Mr. Kenney said he thought that was all right. His concern arose because he had encountered difficulties due to these two words. The Secretary said he felt sure that there was no chance of difficulty arising, except in possibly one or two specific cases. If it did, he would take charge and see that it did not develop.

700.5 MSP/4-1752

Memorandum by the Assistant Secretary of State for European Affairs (Perkins) to the Under Secretary of State (Bruce) [1]

SECRET WASHINGTON, April 17, 1952.

We have just learned confidentially that Senator Green proposes to introduce the following amendment for insertion in this year's Mutual Security Act.

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[1] Drafted by Deputy Assistant Secretary Bonbright.

"The Congress believes it is essential that the Mutual Security Act be administered so as to make it clear at all times that the American people wish to assist dependent peoples the world over to establish their own free political and economic institutions."

According to our information which comes from a member of the staff of the Foreign Relations Committee, no Senator can be expected to oppose this amendment. In addition, strong representations by the Department to the Committee, especially after the President's recent speech,[2] would be both difficult and embarrassing. Consequently, it seems to us that our only course of action would be an informal and personal approach to Senator Green.

Although the wording of the proposed amendment is fairly restrained, I think you will agree that its introduction at this time, and subsequent passage, would be sure to cause great concern among our Allies with overseas dependencies, particularly coming on top of the President's recent speech. I strongly urge that an effort be made to talk the Senator out of it and I hope that you would be willing to take this on.

The task is made more difficult by the fact that the confidential manner in which we obtained the text of the proposed amendment makes it impossible for us to reveal our knowledge of its existence. We therefore have to find another "peg" on which to hang the discussion. It seems to us that the peg may be provided by the Secretary's telephone conversation with Senator Green on March 25.[3] I attach a copy and you will note in the second paragraph that they discussed the colonial question. It seems to me that you could approach the matter by indicating that the Secretary asked you to follow up on this conversation. You could perhaps begin by explaining our position on the Tunisian question along the lines of the Secretary's press conference yesterday. With this as a starter, you might be able to smoke the Senator out in revealing his plans so that a direct discussion of his proposed amendment would follow.

Unfortunately, we have a very tight deadline if there is any hope of getting the Senator to withdraw. According to our confidential source we must act before tomorrow (Friday) evening. Otherwise it is believed we will be too late.

I am also enclosing for your information a copy of a memorandum prepared by Messrs. Knight and Nunley which I think has some good and interesting suggestions.[4]

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[2] Reference is presumably to President Truman's nationwide address of Mar. 6 on the Mutual Security program. See the editorial note, p. 470.

[3] No record of this conversation has been found in Department of State files.

[4] A handwritten notation at the end of the source text reads: "I think it important to consult with Ti Wood as to what if anything he knows or is doing." The

Continued

[Enclosure]

Memorandum Prepared by Ridgway Knight of the Office of Western European Affairs and William Nunley of the Office of European Regional Affairs [5]

SECRET [WASHINGTON, April 9, 1952.]

I. *General Policy Considerations*

In considering any proposal for the expression of a point of view by the United States on the "colonial question", it is important first to recognize that the people of the United States have a natural sympathy for the aspirations of dependent peoples for freedom, independence and economic well-being. This sympathy has been demonstrated time and again by the actions of the United States Government, both in dealing with territories under its control and in the exercise of its influence in behalf of other dependent peoples (Indonesia, India, Libya, etc.). As a basic principle of its foreign policy, the United States believes that the peoples of all territories now dependent should eventually attain self-government, either by establishing the territory as an independent state or, where acceptable to the peoples concerned, by political integration with the mother country under conditions of freedom and equality.

At the same time, in the application of this fundamental policy to particular situations, the United States is required to take into account certain additional considerations, as follows:

1. The United States cannot, by action or implication, automatically endorse "just any" independence movement, without regard

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reference is presumably to C. Tyler Wood, Associate Deputy Director of MSA. A handwritten notation at the top of the source text reads: "Saw Sen Green 10:00 a.m. April 19." The amendment does not appear in Public Law 400, the Mutual Security Act of 1952, signed by President Truman on June 20, 1952.

[5] The source text is accompanied by two covering memoranda. The first, dated Apr. 17, is from Knight to Under Secretary Bruce and reads as follows: "This is one of the papers which I mentioned yesterday in connection with the Colonial problem. It may be difficult to use after the President's recent speech. I will forward the paper from which this stems after touching it up a bit." The second covering memorandum was drafted by Knight on Mar. 26 in reaction to an exchange between Senator Green and Secretary Acheson during the Secretary's testimony on behalf of the 1953 Mutual Security Program on Mar. 18. A copy of this paper, along with the briefer summary printed here, was apparently forwarded to the Under Secretary on Sept. 30 and is in file 700.5 MSP/9-3052. The second memorandum, undated and unsigned, reads: "This paper has been prepared by Ridgway Knight of WE and William Nunley of RA, as an outline for confidential discussions with members of Congress, in connection with the MSP presentation of U.S. policy with respect to colonial areas. The paper is addressed particularly to the suggestion made by Senator Green and others that the 1953 MSP legislation embody language expressing the sympathy of the United States with the aspirations for independence of colonial peoples."

to its competence, political coloration or probable consequences. In some instances, these movements are inspired and dominated by the forces of Communist imperialism, which has long aimed at separating dependent peoples from the colonial powers as a first step in subjugating the former and breaking down the strength of the latter. In such cases, the movement is not toward "independence" at all, but in fact toward a powerful and merciless tyranny. In other instances, the movement may be genuine but may be undertaken by a people so pitifully ill-prepared for self-government that immediate success would result in increased economic weakness, social retrogression, and political stability,[6] thereby paving the way for an eventual seizure of power by Communism or some other dangerous form of government. The long-term interests of both the United States and the colonial peoples require that colonial freedom be established on solid political, economic and social foundations. Otherwise, the dependent peoples risk exchanging a temporary political subordination for a crushing despotism which might take generations to break.

2. The interests of the United States demand friendly relations with mother countries as well as dependent peoples. Some of the mother countries, in fact, such as France and the United Kingdom are important allies in the world struggle against Soviet imperialism. Our security requirements will not permit us to be indifferent to any development which threatens the legitimate interests of these countries and which might gravely weaken their capacity to act as full partners in our collective security system. There would be little value in a policy designed to create strong and democratic friends 50 years hence at the cost of sacrificing the strength and stability of the nations upon which our security depends at this moment. Our aim must be to avoid a choice between these alternatives and to pursue policies through which the true interests of both mother countries and dependent peoples may best be realized.

3. Even without regard to the aims of United States policy, there is always a delicate question as to when, how and to what extent United States influence can be used effectively in particular circumstances. In disputes between a mother country and a dependent territory, intervention by a third party may often serve no purpose other than to create suspicion on both sides, and sometimes produce a result quite the reverse of what was intended. Moreover, the use of United States influence places on us a definite responsibility for results—sometimes a responsibility for "picking up the check" if our proposals do not in fact work out satisfactorily. Final-

[6] A handwritten marginal notation in the source text at this point reads: "instability?".

ly, we must remember that the United States cannot, in any case, hope by a policy of intervention to outbid the Soviet Union for the affections of the extremist elements in the colonial territories, since the responsible can never outbid the unscrupulous.

II. *Probable Political Effects of Expression on Colonial Problem in MSP Legislation.*

The suggestion that the United States might use the language of the MSP legislation to express sympathy for the aspirations of dependent peoples has the following disadvantages:

A. In general, the Department of State believes it desirable to confine statements of policy in legislation to subject matter which is directly related to the purposes of the legislation. Any other course tends to produce suspicions of United States motives and aims. In particular, a seemingly non-relevent provision tends to supply fuel for anti-American propaganda attacks embodying the theme that the United States is using its aid program not merely as a measure for helping to build the collective strength of the free world, but largely as a device for pressing America's special interests in all aspects of international relations.

B. A legislative expression of sympathy for the aspirations of colonial peoples would achieve little in a positive nature, since the responsible elements in dependent territories will judge the United States by its actions rather than by general expressions. Statements of this kind tend to be ignored by people to whom they are addressed, and to be used only by "trouble makers".

C. A statement of the kind suggested would almost certainly be subject to a great deal of misinterpretation among the dependent peoples, partly unintentional and partly deliberate. For example, in some areas irresponsible leaders might use such a statement to convince their followers that the United States will support even the most fanatical demands against the colonial powers. Similarly, it might be interpreted as a sign of weakness and division among the Western powers and thereby stiffen local leaders against acceptance of compromise solutions to current disputes. Even Communist elements, masquerading as legitimate nationalists, could use the statement to advantage, just as the Communists tried, in the 1948 Italian elections, to persuade many ignorant voters that the United States did not care whether they voted Communist or not.

D. The effects within the governing countries would be equally detrimental to American interests. In countries such as the United Kingdom, France, Belgium, etc., a probable popular interpretation of such a statement of policy would be that the United States is intervening in what most of the national population believes is a

matter of purely national concern. Anti-American propagandists in these countries would go much further and would declare (as they have already done on occasion) that the real aim of the United States is to use its aid program as a device for "stealing" the colonies for itself. An argument of this kind makes a real impression in circumstances where it seems evident that the colonial territories concerned are actually incapable of self-government at this time. In either case, the effect is to arouse resentment against the United States among peoples whose friendship and cooperation is vital to American security. Several of our NATO allies are colonial powers, and they have acknowledged their responsibilities under the UN Charter, both within the UN and elsewhere. Sometimes we have not agreed with them in their handling of issues arising in the dependent territories, nor with their judgments as to the capability of certain dependent peoples for self-government. However, steps by the United States which might be interpreted as infringing upon the sovereignty of these nations might well cause a serious rift between the countries of the North Atlantic alliance and could conceivably result in the withdrawal of certain countries from active participation in the mutual defense program. As a minimum, it would make the task of the existing governments in these countries far more difficult, by permitting the political opposition to play on chauvinist sentiments and to accuse the government of being subservient to American pressure.

700.5 MSP/5–1452

Memorandum of Telephone Conversation, by the Special Assistant to the Secretary of State (Battle)

CONFIDENTIAL WASHINGTON, May 14, 1952.

Participants: Senator Saltonstall
Mr. Acheson

Mr. Acheson telephoned Senator Saltonstall this morning re the MSA bill. He said that we were very much concerned about the final action which the Armed Services Committee is going to take today on the bill. The Secretary said that he was hoping that the Committee would not recommend any further cut. The Secretary said that he hoped the Senator had read our note to the USSR which came out this morning.[1] The Senator said he had read only the headlines.

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[1] Reference is to the tripartite note of May 13 to the Soviet Ministry of Foreign Affairs in reply to the Soviet note of Apr. 9 concerning Germany. For documentation on these and related notes, see volume VII.

The Secretary said that from that note the Senator would see that we are in a desperate game with the Russians at the present time to try to push through this consolidation. Everybody knows what we had last year in the bill and knows what we are likely to get this year in the bill. We have two new problems this year. One is the Germans coming in and the new divisions being raised; the other is the attempt to raise and extend capacity of the native army in Indochina. With another cut we cannot take on either of those responsibilities.

Mr. Saltonstall said that he let his proxy yesterday to vote the bill out as is, reserving the right to vote for any further cut on the floor. He said he thought the Committee vote would be extremely close; he didn't know just how it would go, it might go either way by one or two votes. The Senator said he wouldn't want to give the impression that if he voted the bill out as it now is, that he wouldn't vote to cut it further on the floor after he hears all the evidence. Senator Saltonstall said that he thought the Secretary wanted him to tell him frankly what his feelings were, and that is that he would vote as is without any cut but reserve his right to make up his mind after hearing the evidence on the floor.

The Secretary said that he would like to give him all the evidence that we have. He said that he talked at some length about the Middle East when he testified last Friday. He said that the Senator was not there but he would be delighted to go over all those parts of the bill with him. The Senator repeated that he would vote as is without any further cut but reserve his right to make up his mind after hearing the evidence. That was his feeling at the moment, he said, and he thought he would stick with it. The Senator said that it was a very difficult vote for him for several reasons, but that was his position.

The Secretary thanked the Senator.[2]

LDB

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[2] Battle also recorded conversations between Secretary Acheson and Senator Stennis and Senator Morse, both on May 14. The memoranda of these conversations are in Secretary's Memoranda of Conversation, lot 65 D 238, "Foreign Aid".

Editorial Note

Department of State Announcement 56 of May 16, 1952, contained notification that effective May 19, 1952, Edward M. Martin would become Special Assistant to the Secretary of State for Mutual Security Affairs. The Announcement reads in part as follows: "As Special Assistant, Mr. Martin will be the departmental officer primarily responsible for representing and speaking for the

Secretary on matters affecting the Mutual Security Program and for advising the Secretary on mutual security matters as they concern the development of foreign policy." A copy of the full text of this Announcement is in the A/MS files, lot 54 D 291, "Org. and Admin. of For. Aid Program".

Current Economic Developments, lot 70 D 467

Current Economic Developments [1]

[Extract]

SECRET WASHINGTON, June 16, 1952.
Issue No. 361

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US Mutual Security Legislation for 1952

The Mutual Security Act of 1952 [2] now on the President's desk for signature authorizes a total of $6,447,730,750 in foreign aid for appropriation under the Mutual Security Program to free nations resisting Communist aggression beginning July 1. Of the total authorization, $4,598,424,500 is to be used for military assistance and $1,805,288,500 for economic and technical assistance. Authorization is also included totaling $44,017,750 for UN technical assistance, emigration of surplus manpower from Europe, ocean freight on relief packages, and the UN International Children's Emergency Fund. The total authorization falls short $1,468,750,250 of the $7.9 billion requested by President Truman and it is possible that there will be a further cut in the appropriation legislation.

The new legislation contains some provisions that will present increased difficulties in administration, and the sharp reductions in funds authorized will materially handicap certain of the programs. One of the most serious developments in Congressional consideration was the Senate version which included a new Kem amendment to supersede the present Battle Act.[3] The Executive Branch opposed the new amendment which was far worse than the original Kem amendment. It provided, with no possibility for exceptions, that all economic, financial, or military assistance should be terminated to any country exporting or knowingly permitting the export

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[1] *Current Economic Developments* was prepared as a classified twice-monthly publication by the Bureau of Economic Affairs (subsequently the Bureau of Economic and Business Affairs) of the Department of State for internal use as a background and policy guidance report for policy level officers of the U.S. Government serving at home and abroad. It was instituted in 1945 and terminated in October 1974.

[2] Signed by President Truman on June 20, 1952; for the text, see 66 Stat. 141.

[3] For documentation on the Kem Amendment and the Battle Act, see pp. 817 ff.

of arms, military matériel, or goods likely to be used in the manufacture of arms or armaments going to the Soviet Union or its satellites or the shipment of which is embargoed or would be refused export licenses by the US. The amendment was struck out in conference. A strong attempt was made on the floor of the Senate to reject this portion of the conference report. Owing to an unusual parliamentary situation, the vote in the Senate could not be taken on a proposal to recommit the bill to conference but had to be taken on the conference report as a whole. The fact that the Senate approved the conference report by a good margin does not give us grounds for complacence, however. Political observers believe that had the vote been taken on the Kem amendment alone, it probably would have passed. There is a possibility that this issue may come up again in the appropriation debate.

Another amendment that would have presented serious difficulties had it been adopted would have limited dollar expenditures under the Act for International Development for supplies and equipment in any country for any fiscal year to not more than three times the dollar costs for personnel. The conferees felt that the reduction in TCA funds was a sufficiently restraining factor for this year, and that the proper limit for such expenditures could not be effectively expressed by a mathematical ratio. The conference report points out, however, that supplies and equipment beyond those necessary for demonstration purposes will convert this into a type of world-wide economic aid program our country cannot afford and specified that this should provide adequate notice as to the legislative intent of this program.

Funds Authorized. Under the new Act, a total of $4,698,047,750 is authorized for Europe for military and defense support purposes. Military and technical assistance in the amount of $741,430,500 is authorized for the Near East and Africa, including funds for Arab and Israeli refugees. Asia and the Pacific have been authorized $886,220,000 for military, economic and technical assistance, and $78,014,750 is provided for Latin American military and technical assistance. As in previous legislation, there is an administrative provision permitting a transfer of funds up to 10% for the purpose for which they were originally intended, at the discretion of the President, between geographic areas.

All funds were cut below the amounts requested by the President. The 29.5% reduction in the sum for the defense support of our North Atlantic Treaty allies and other European countries together with the decreased authorization for the furnishing of military end items to European countries (from $4,145,000,000 to $3,415,614,750 or 17.6%) will result in a substantial decrease in their ability to carry through the planned defense build-up. A large

reduction (20.9%)[4] was also made in the authorization for technical assistance for South Asia, including Burma and Indonesia, which will materially handicap the projected programs in those areas. The Executive Branch favored inclusion of an amendment in the legislation that would provide for continued MSA administration in Burma and Indonesia despite US non-participation in any mutual defense programs in those countries. MSA has been administering in those areas the economic programs originated under the previous Economic Cooperation Administration. Under the new legislation it will be necessary to shift the economic and technical assistance programs in those areas to the administration of the Technical Cooperation Administration.

The bill includes an authorization of $9,240,500 for contribution to the Provisional Intergovernmental Committee for the Movement of Migrants from Europe with the stipulation that none of the funds made available for the movement of migrants shall be allocated to any international organization having in its membership any Communist or Communist-dominate or controlled country.

A total of $16,481,000 was authorized for the UN International Children's Emergency Fund. It was specified that in no case should US contributions exceed one-third of the contributions from all governments including government contributions for the benefit of persons located within territories under their control. In addition, none of the funds may be used in duplication of the activities of other UN agencies.

The bill also provides for a US contribution for multilateral technical assistance programs, authorizing $15,708,750 for the UN and its Specialized Agencies and for the Organization of American States.

Counterpart. A provision was modified which would have seriously hampered the flexibility of use of counterpart funds. The proposed provision, which the Executive Branch strongly opposed, would, except as otherwise provided, limit use of counterpart funds only for projects of military assistance or defense support. The conferees recognized the desirability of the use of more counterpart funds in the defense effort, but felt that this provision might prevent the use of counterpart under other acts, and for such purposes as US procurement of strategic materials. Furthermore, the conferees felt there was the possibility that under this provision counterpart could not be used in Germany, Austria and Trieste to carry

[4] At this point in the source text the parenthetical statistic 20.9% is crossed through and a handwritten notation in the margin reads: "should be 32.6 (TCA says Conf rept is wrong)".

out programs essential to the security of the US but not strictly within the limitation of this provision. The modification limits the programs for which new funds authorized in the 1952 Act would be available except as other uses of counterpart are specifically authorized by law.

The new legislation increases the availability of counterpart for the procurement of strategic materials to 10% from the previous 5%. The Executive Branch opposed it as it will require renegotiation of bilateral agreements with countries receiving economic assistance, will reduce pro tanto funds available for the military budgets of recipient countries, and may reduce the dollar earning potential of those countries in respect to materials sold to the US.

On the positive side, the new legislation provides for setting aside counterpart funds for programs furthering free private enterprise objectives (Benton Amendment). Dollar aid in the amount of $100,000,000 is to be furnished under agreements which will assure that the counterpart derived therefrom shall be used for this purpose. The counterpart funds are to be used to establish revolving funds which shall be available for making loans and carrying out such programs. In this connection, funds not to exceed $2,500,000 may be transferred to the Organization for European Economic Cooperation for the encouragement of free enterprise objectives. In addition, limited amounts of counterpart funds acquired in connection with the foreign-aid programs may be used for the educational exchange funds authorized by the Fulbright Act.

Shipping. The new legislation clarifies the shipping provisions of the Mutual Defense Assistance Act so that the 50% requirement no longer applies to material purchased by foreign countries from the US on a reimbursable basis. The 50% requirement still applies to other cargo shipped from the US under the Mutual Defense Assistance Act.

Ocean Freight Subsidies. The authority of the US to pay ocean freight charges on shipments of relief supplies overseas is continued in the 1952 Act. Similar authority is granted in the case of shipments by voluntary non-profit relief agencies (registered with and approved by the Advisory Committee on Foreign Aid) to any country eligible for economic or technical assistance under the Mutual Security Act. The Department will assume the responsibility for administering this program for fiscal year 1953.

Other Provisions. The provision spelling out the responsibilities of the Director for Mutual Security for small business was transferred from the Economic Cooperation Act [5] to the new Mutual Se-

[5] The act is Title I of the Foreign Assistance Act of 1948 (Public Law 472), approved Apr. 3, 1948; for text of Title I, see 62 Stat. 137.

curity Act so as to assure the continuation of operations under that section. The new measure also provides that small business will share equitably in TCA programs.

The Act carries a limitation on personnel in Government agencies administering the Mutual Security Program which will require a reduction in the Washington staffs and will present difficulties in carrying out the program.

Another difficulty is presented by the bill's prohibition of use of any appropriated or counterpart funds for expenses of disseminating within the US "general propaganda" in support of the Mutual Security Program or the payment of travel or other expenses outside the US of any citizen of the US for the purpose of publicizing the Mutual Security Program within the US. However, at the same time the conferees recognized there should not be any interference with the supplying of full information to the Congress and to the public concerning the operations of the Mutual Security Program.

Continuation of the informational media guaranty program is also authorized in the new legislation, and continuation of the investment guaranty program beyond June 30, 1952 is otherwise provided for in the Act.

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Secretary's Staff Meetings, lot 63 D 75, "Documents Jan-Aug 1952"

Notes on the Secretary's Staff Meeting, Held at the Department of State, 9:30 a.m., Tuesday, June 24, 1952

[Extract]

SECRET
SM N-43

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1954 Mutual Security Program

7. Mr. Martin stated that we have received from the Bureau of the Budget a time schedule for preparations of the 1954 Mutual Security Program. The President wishes to have in his hands the figures for the program by early November. The Bureau of the Budget has set a deadline of September 15 for submission of the figures to that office. Mr. Harriman has set August 10 as the deadline for submission of the figures to DMS. Mr. Martin explained that the Bureau of the Budget has set a ceiling of $7-billion plus $500 million for aid to Japan. He pointed out that this is a reduction of our planning figure for this year. The Bureau of the Budget has also submitted figures by titles and countries, and the Bureau

asks the individual agencies to develop justification for these figures. Mr. Martin pointed out that at the last meeting of MAAC, we and MSA protested the establishment of these figures, and the Bureau of the Budget agreed to submit its assumptions on which the figures were based. Mr. Martin was concerned that this preparation by the Bureau of the Budget freezes to some degree what we might propose and continues programs which we might wish to reexamine. He also questioned the relationship of these planning figures to the NSC 114 review.[1] It is hoped that DMS will work with the NSC on this general problem. Mr. Bohlen pointed out that the NSC reappraisal, which is general, would not help in the establishment of ceiling figures or individual figures for countries or programs. However, the annexes which are being prepared by the individual agencies might help in this respect. Mr. Martin pointed out that, in effect, we are preparing the annexes before the general report. Mr. Ferguson was inclined to believe that the NSC review could be of some assistance. Mr. Bingham added that he was not in sympathy with Mr. Martin's criticism of the approach by DMS and the Bureau of the Budget. He felt that it was much better to have these figures now rather than at the last moment as was the case for the 1953 program. He doubted that submission of figures by the Bureau of the Budget would freeze action on the individual agencies involved.

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[1] For documentation on the review of basic national security policy contained in the NSC 68 and NSC 114 series, see volume II.

700.5 MSP/7-152

Memorandum by Edwin M. Martin, Special Assistant to the Secretary of State for Mutual Security Affairs [1]

SECRET [WASHINGTON,] July 1, 1952.

Subject: Fiscal Year 1954 Mutual Security Program.

At a meeting on June 25 with representatives of your respective offices, current plans for the preparation of the FY 1954 Mutual Security Program were discussed.

DMS and the Bureau of the Budget have prepared a statement, a copy of which has been furnished your representatives, showing basic assumptions, military and economic aid programs by title, illustrative country aid figures, and a ceiling of $7 billion for the

[1] Sent to Thorp, Byroade, Allison, Hickerson, Perkins, Miller, Andrews, and Nitze.

1954 program, plus a possible sum of a half billion dollars for assistance to Japan.

Discussion of these assumptions in MAAC is scheduled for early July. Comments from interested parts of the Department have been requested by June 28.

The deadline for submitting the 1954 program estimates to DMS has been set for August 10. It is requested that the program estimates from operating units in the Department, cleared insofar as possible with other interested departmental offices, be available in S/MSA not later than August 3rd to insure that a completely cleared State Department position may be transmitted to DMS by August 10. DMS has been given until September 15 to submit its analysis, after which it will be furnished to the Bureau of the Budget on that date.

At the June 25th meeting it was agreed that the Department should take "a fresh look" at the foreign aid program for 1954. There should be a comprehensive and realistic appraisal of United States objectives in all areas of the world, and an evaluation should be made of these objectives to determine what has been accomplished and what remains to be done in order to determine how best to proceed in 1954, i.e. are the instrumentalities and techniques now being employed the most effective and efficient which could be utilized for the purposes envisioned? A series of project assignments designed to accomplish this is attached.

Several of these projects attack from different angles the single central problem of how we should give aid to under-developed areas. Basically there are four types of economic aid which may go to under-developed areas:

1. Defense support which is a true contribution to an expanding defense buildup.
2. Technical assistance, strictly defined to cover personal services and supplies and equipment essential for demonstration purposes.
3. Economic development programs, involving large-scale investment.
4. Commodity aid, designed either to provide local currency to support any one of the three preceding programs or for relief purposes, or for general economic betterment.

The examination of the Locke project [2] is primarily an examination of how we wish to conduct our program in an area in which elements of type 2 and 3 aid, and type 4 aid for relief, are all involved.

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[2] See footnote 4, p. 473.

The examination of the India program [3] is primarily an investigation as to how to conduct a combined type 2 and 3 program, with elements of type 4 to assist in financing the latter.

The re-examination of our programs in the Far East, other than those which are pretty clearly justified as type 1 defense programs—Formosa and Indochina—is designed to give guidance as to what in fact we are trying to do in Burma, Thailand, the Philippines and Indonesia. Then we can decide, in the light of this study and of the other projects, what are the best means for accomplishing these purposes.

The African project on Dependent Overseas Territory programs is an example of an essentially type 2 program, with some elements of a type 3 program, which is being accomplished, however, within a type 1 defense support framework, insofar as legislative authority is concerned.

The emergency project is an attempt to face up to the fact that the provision of type 4 aid for emergency purposes, such as famine relief, is not possible within the spirit, and only to a very limited extent within the letter, of the Mutual Security Program as it now stands.

While the emphasis on these projects is primarily in terms of objectives, of legislative authority, and to some extent of agency responsibility, the examination of our basic objectives will involve decisions as to which ones we do want to continue to seek with U.S. funds and will thus have an influence on the amounts to be requested for these countries for FY 1954.

While some of these re-examinations can be completed within a relatively short period of time, some of them may take somewhat longer and it may be necessary to make our FY 1954 justification submittals to DMS prior to their completion. We believe that this can be done and arrangements worked out with DMS for necessary amendments up to the date when DMS must submit to the Bureau of the Budget. Nevertheless, projects should be pursued with a considerable amount of urgency. S/MSA will hold approximately weekly meetings with those responsible to discuss progress.

Since all the projects involve aspects of our economic foreign policy, it is assumed that representatives of E will be consulted and work with the unit having primary responsibility in each case. S/P is also being invited to indicate those projects in which they would like to participate. In addition, attention is called to certain other units which should be consulted in the development of a proposal for consideration as a Department position. It is urged that any

[3] Information about the India program and other projects mentioned here is in the Annex, below.

major differences of view be brought promptly to the attention of S/MSA so that we can be of assistance in resolving them.

[Annex]

Paper Prepared by the Special Assistant to the Secretary of State for Mutual Security Affairs (Martin)

SECRET [WASHINGTON, July 2, 1952.]

SPECIAL STUDIES FOR 1954 MUTUAL SECURITY PROGRAM

1. *India Program.* To what extent do we wish to supplement a strictly defined AID program with either substantial imports of long-range development matériel or with major imports of consumer type goods to provide counterpart for development? Insofar as we wish to do either of these latter two, under what legislative authority should they go forward? What are the desirable administrative arrangements?

Primary responsibility in TCA with NEA collaborating.

2. *Near East Development Program.* Do we wish to finance an NEA development program of the sort proposed by Ambassador Locke in addition to the regular TCA operations and the resettlement programs? If we do, what are the most desirable legislative and administrative arrangements?

Primary responsiblity to NEA in consultation with TCA.

3. Exactly what are our objectives in Indonesia, Burma, Thailand and the Philippines insofar as economic aid is concerned? What are the most appropriate legislative and administrative arrangements to accomplish them?

Primary responsibility in FE in consultation with TCA.

4. How can we improve our program of technical assistance and perhaps developmental assistance to the colonial areas, particularly in Africa, which are now treated as Dependent Overseas Territories?

Primary responsibility in S/MSA in collaboration with TCA, EUR, NEA and UNA.

5. *Emergency Funds.* To determine whether it is possible or desirable to secure authority in the MSP to meet emergencies such as famine relief.

Primary responsibility in L/MSA in collaboration with H.

6. *Dollar Aid to Europe.* To determine what further measures can be taken to reduce dollar aid to Europe and thus decrease the degree of dependence of Europe on the U.S. for this type of assist-

ance and reduce the more and more acute political irritations to which it gives rise.

Primary responsibility in EUR.

7. *Escapee Program.* To re-examine carefully the Kersten Amendment [4] in order to determine what we wish to do under it in another year in an attempt to get a clean legislative picture in this field.

Primary responsibility in UNA in collaboration with EUR.

8. *Economic Aid to Japan.* An estimate of the effects of a Korean armistice in FY 1953 on the Japanese economy to determine whether or not economic aid might, under such circumstances, be required.

Primary responsibility in FE.

Note: It has been decided that present circumstances do not warrant an examination of possible aid programs arising from the Pacific Pact or the Middle East Defense Organization.[5] This might of course change prior to submittal of appropriation requests for FY 1954.

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[4] The amendment to the Mutual Security Act of 1951 sponsored by Representative Charles Kersten (R.-Wis.) permitted refugees from countries behind the "iron curtain" to be formed into NATO military forces.

[5] The term "Pacific Pact" was used frequently in the years 1949–1952 to denote potential regional groupings in the East Asia-Pacific area. For documentation on regional defense problems in the East Asia-Pacific area, see volume XII, Part 1. For documentation on the abortive efforts to create a Middle East Defense Organization, see volume IX.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

SECRET WASHINGTON, July 21, 1952.

Issue No. 366

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Final Appropriation for Mutual Security Program

The Supplemental Appropriations Bill for 1953 as signed by the President appropriates $6,001,947,250 for foreign aid to nations resisting Communist aggression—a cut of 25% from the amount originally requested by the executive branch. This was a reduction of $445,783,000 below the amount included in the authorizing legislation. In relation to the original executive branch request, the final appropriation bill carried over-all funds in the amount of $4,219,834,500 for military assistance. This represented a cut of

$1,205,165,500 from the asking figure of $5,425,000,000. Funds for all other purposes were cut by $692,887,250 to a final figure of $1,782,112,750 as compared to the President's original request of $2,475,000,000.

The US agencies concerned are now attempting to determine how much money individual countries will receive under the final appropriation bill, and are studying the possibility of shifting funds in order to help the most hard-pressed areas. Consideration is also being given to going to Congress for a deficiency appropriation to increase aid to South Asia, with particular reference to India, whose economic assistance cut was the most drastic. According to tentative allocations based on the amounts appropriated, only about $44 million are now available for India, compared to last year's $50 million.

The Point IV appropriation for South and Southeast Asia including India, Pakistan, Burma and Indonesia suffered a 60% cut to $67,793,000 from the original request of $178,000,000 and an authorized amount of $118,634,250. The over-all Asian military and economic assistance program was cut to $811,378,750 from the $1,019,230,000 originally asked, a reduction of $207,851,250. The amount authorized was $886,220,000.

Europe's aid program was also severely cut back in the appropriating legislation, with a total cut for military, economic and technical assistance of $287,390,000, bringing the amount available to $4,410,657,750 from the authorized figure of $4,698,047,750. The total amount originally requested by the President for Europe was $5,964,200,000.

The Near East and Africa suffered cuts of $61,200,500, bringing their appropriation for military, economic and technical assistance, and Arab and Israeli refugees from $741,430,500 to $680,230,000. The President had asked for $802,370,000.

Latin American countries were cut a flat $6 million from $78,014,750 to $72,014,750; the original request had been $84,400,000. Multilateral technical assistance was cut to $9,171,333 from the authorization of $15,708,750. The President had asked $17,000,000 for this purpose. Our contribution to the Provisional Intergovernmental Committee on the Movement of Migrants from Europe,[1] requested at $10 million, was authorized and appropriated in the amount of $9,240,500. We originally asked $2,800,000 for ocean freight for relief packages; the amount authorized and appropriated amounted to $2,587,500. No money was sought for UNICEF,

[1] For documentation concerning the Provisional Intergovernmental Committee, see pp. 1560 ff.

but Congress appropriated $6,666,667, after having authorized $16,481,000.

In criticizing the appropriation, President Truman called the Congressional action the poorest kind of economy, stressing that the cuts came at a time when many countries are facing severe economic strains. He expressed the opinion that the cut in Indian aid was extremely dangerous, for that country is now engaged in a tremendous effort to build up its own economy and living standards, to show that democratic methods can succeed in curing present conditions in Asia. The President also expressed his conviction that Congress itself will eventually find it necessary to make additional funds available during this fiscal year.

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S/S–NSC files, lot 63 D 351, NSC 135 Series

Report Prepared by the Office of the Director of Mutual Security (Harriman) [1]

[Extract]

TOP SECRET [WASHINGTON,] August 18, 1952.
NSC 135 No. 3

THE MUTUAL SECURITY PROGRAM*

[Here follows a table of contents.]

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[1] By memorandum of Aug. 22, NSC Executive Secretary Lay circulated this report to the members of the Council, the Secretaries of the Treasury and Commerce, the Attorney General, the Acting Director of Defense Mobilization, the Chairman of the Council of Economic Advisers, the Director of the Bureau of the Budget, and the Federal Civil Defense Administrator. (S/S–NSC files, lot 63 D 351, NSC 135 Series) This report is a component part of NSC 135, a collection of eight reports on the status of national security programs, prepared by appropriate executive agencies and submitted to the NSC between Aug. 6 and 22, 1952. For additional documentation on the NSC 135 series, see volume II.

*In transmitting this status report, the Office of the Director for Mutual Security stated that it represents essentially the synthesis of materials separately submitted by the Department of State, the Department of Defense, and the Mutual Security Agency, relative to the segments of the Mutual Security Program administered by each of them. The Office of the Director for Mutual Security did not have an opportunity fully to review and evaluate certain of the important data submitted by the operating agencies, nor, in cases where the data appeared inadequate or unsatisfactory, to secure appropriate revisions therein. Accordingly, the report is presented with the understanding that certain of its major assumptions and conclusions may be subject to modification as the result of more thorough study and more extensive inter-agency coordination. In view of the rigid time schedule there was not any opportunity to have the material, as synthesized by the Office of the Director for Mutual Security, formally cleared by the Department of State, the Department of

Continued

I. SUMMARY EVALUATION

1. *European NATO Area and Western Germany.* Since the submission of NSC 114/2,[2] the major U.S. policy objectives in the NATO area have been modified by a material change in the method of programming the force build-up.[3] Instead of continuing to plan with reference to the Medium Term Defense Plan force goals for 1954 it was decided to predicate programs and policy objectives upon force commitments undertaken year by year by NATO partners, after a thorough collective review of their politico-economic capabilities in relation to force goals which the NATO Military Committee and Standing Group proposed as militarily desirable. In line with this new approach, the NATO countries adopted at Lisbon in February a series of force goals for December 31, 1952, to which each country firmly committed itself, together with preliminary goals for 1953 and planning guides for 1954.

On the basis of information received from U.S. military authorities in Europe, there will be a shortfall of at least 15 divisions in the Lisbon goal of 43⅔ divisions for the European NATO countries (i.e., excluding the U.S. and Canada) which were to be raised and brought to prescribed standards of combat readiness by December 31, 1952. M-Day divisions will be only 2⅓ short of the 19-division goal, the balance of the shortfall being in divisions in readiness categories M+3 through M+30. These latter divisions are substantially all in being, but it is not anticipated they will meet the prescribed readiness standards by December 31.

As to air forces, slight shortfalls are anticipated in the numbers of aircraft--about 90 out of the total goal of 3,276 frontline aircraft (excluding U.S. and Canada). The fact that no allowance for combat reserves has been made, coupled with deficiencies in training and organization, makes the situation considerably less satisfactory than these figures would indicate. Prospective shortfalls in navy goals are restricted to escorts, minesweepers, and submarines, but are nevertheless deemed significant in view of the missions contemplated.

Defense, and the Mutual Security Agency prior to its transmittal. In the event that either Department or the Mutual Security Agency has any major reservations on its contents, the Office of the Director for Mutual Security will submit a supplemental memorandum, either modifying the report accordingly or indicating any divergent views. A significant portion of the data, forecasts, and conclusions relating to the military assistance program is premised on estimates of total fiscal 1953 end-item deliveries which are at this stage highly tentative and subject to further examination by the Office of the Director for Mutual Security and the Department of Defense. [Footnote in the source text.]

[2] For text of NSC 114/2, "Status and Timing of Current U.S. Programs for National Security", dated Aug. 8, 1951, see *Foreign Relations*, 1951, vol. I, p. 127.

[3] For documentation on NATO force buildup, see vol. V, Part 1, pp. 1 ff.

One important factor in the shortfall is the delay of the European nations in raising and, especially, in effectively training forces. Another factor which, while less important as of June 30, 1952, threatens to become more serious in coming months, is the delay in deliveries from the U.S. of MDAP military matériel.

Targets indicated in NSC 114/1 were that the FY 1952 MDAP program (worldwide) would be delivered by December 31, 1952, with the exception of certain aircraft and other long-lead items. Consistent with this forecast, the U.S. agreed, during the TCC review last fall, to the adoption, for planning purposes only, in connection with setting NATO defense budgets and force goals, of the assumption that end-item deliveries from U.S. and Canada to the NATO area in FY 1952 and 1953 combined would total $9.8 billion. Current estimates indicate that actual deliveries during this period will not exceed $6 billion. Continuance of Korean attrition, general shortfalls in U.S. munitions production, and the recent steel strike have all been factors in reducing the total supply of materiel available.

On January 9, 1952, the President issued a directive to the Secretary of Defense concerning priorities to be given to deliveries of MDAP material, the key passages of which are:

". . . It is essential that a policy of allocating military equipment be established which will assure that U.S. forces in Europe and NATO forces, as well as other forces of certain foreign countries, which in the case of war are most likely to be first engaged with the enemy, are adequately equipped. . . .[4]

"Material in current inventories and production on and after 1 January 1952 will be made available for this purpose subject to overriding priority for combat consumption requirements of UN operations in Korea and operations in other active combat areas as determined by the Joint Chiefs of Staff, and subject, of course, also to the limits of financed mutual assistance programs so far as concerns the material to be furnished non-U.S. forces."

Allocation procedures have been worked out, and a review is now in progress to identify the high-priority NATO requirements to which allocations should be made. To date the altered priorities and revised allocation procedures have apparently had only a limited impact on the total monthly volume of MDAP shipments.

NSC 114/2 indicated that, though a substantial amount of productive capacity for munitions was available in the NATO area, inadequate provisions in country defense budgets for the financing of major matériel procurement made it impossible fully to utilize this capacity. The U.S. Government during the last half of fiscal 1952 placed in the NATO area over $600 million worth of offshore pro-

[4] Ellipses in the source text.

curement contracts. It is anticipated that this financing—along with a substantially higher rate of contract placement expected to be financed during fiscal 1953, both through off-shore procurement and through country defense budgets—will take up a large part of the slack in European defense production potential.

NSC 114/1 noted that lack of political cohesion and resoluteness on the part of the NATO countries in the adoption of and adherence to defense build-up programs was a major limiting factor in the accomplishment of U.S. objectives in the NATO area. The successful completion of the TCC review of politico-economic capabilities last fall, coupled with the adoption of firm December 31, 1952, force goals at Lisbon, were encouraging steps toward remedying these deficiencies. Securing the adoption of adequate legislation on military service, and assuring that defense budget expenditures meet the levels required to support the scheduled forces, remain major problems. There have been strong pressures for a stretch-out of the defense build-up period, particularly with respect to defense production. While periods of conscription have generally been lengthened since Korea, serious difficulties are being met in extending them to fully adequate levels. In summary, still to be accomplished is the basically political task of reconciling the high military requirements of NATO defense with the limited capabilities of the NATO countries to meet these requirements.

Despite these difficulties, the past year has in many respects been a period of remarkable progress in NATO. Problems which a year ago appeared insoluble have now either been solved or are well on the way toward solution. NATO has been given a sense of direction and a concentration of purpose which it previously had lacked. In addition to the TCC exercise and adoption of the Lisbon force goals, two notable accomplishments were the adherence of Greece and Turkey, and laying the groundwork for bringing the Federal Republic of Germany into the European defense scheme through the EDC treaty and related arrangements. The difficult task of securing the ratification of the EDC treaty still remains. Its accomplishment is of major importance to the success of the entire NATO plan.

The validity of certain of the conclusions in this report and the accuracy of the evaluations made are limited by the existence of major problems and unresolved issues with respect to deliveries of U.S.-furnished end-items and to the adequacy of European defense expenditure levels. As regards deliveries of U.S.-furnished end-items, the following problems have been encountered:

a. No objective measure is available of the importance of delays in the delivery of MDAP matériel as a factor contributing to the shortfall in meeting force goals. Data on the estimated number of

divisions, aircraft, and vessels meeting readiness standards as of June 30 and as of December 31, 1952, are compiled from briefly summarized judgments submitted by MAAG chiefs. These judgments have mentioned various important factors contributing to the shortfall, rather than presenting (as would probably be impossible) quantitative data on these factors.

b. Scanty information is available on the extent to which delays in the delivery of MDAP matériel have discouraged individual countries from calling up more forces or increasing defense budget expenditures. Evaluation of this factor must inherently be subjective.

c. In the light of the two limitations above, no attempt has been made to judge what impact on the attitudes of European governments might be expected as they become aware of the anticipated $3.8 billion shortfall (below TCC assumptions) in total U.S. matériel deliveries in fiscal 1952 and 1953. Nor is it possible to appraise quantitatively what effect the currently prevailing level of deliveries (not over $200 million per month) has had in discouraging the Europeans from making greater efforts—i.e. what confidence would the European governments feel in U.S. forecasts of a shortfall of $3.8 billion, when a continuation through fiscal 1953 of prevailing delivery rates would mean a shortfall of $5.7 billion?

d. The validity of the stated delivery forecasts is crucially dependent on the accuracy of the underlying assumptions as to U.S. production and as to requirements of U.S. forces, particularly those in Korea.

e. Whether the new allocation procedures will be effective in adequately increasing deliveries to NATO, is not yet known. As indicated previously, total U.S. production, and total higher-priority requirements, are factors which cannot be accurately forecast.

As to whether European defense budget expenditures are reaching levels adequate to support the planned force build-up, major problems of analysis encountered are:

a. Originally stated defense expenditure "goals" were not precisely computed in terms of their adequacy in supporting specified force levels. The Screening and Costing Staff estimates relied on certain assumptions which it is known have not fully materialized. The TCC "desirable levels" of defense expenditure were developed in aggregate terms, with emphasis on appraising the country's general financial capacity rather than on determining the precise forward requirements which would correspond to the desired force goals and readiness standards.

b. While the attainment of goals in country defense expenditures for major matériel procurement is still a substantial factor in contributing to the over-all success of the U.S. objectives of stimulating defense production in Europe, the large-scale activation of the offshore procurement program promises increasingly to take up the slack in cases where physical capacity is idle for lack of European financing.

Despite the uncertainties involved in making an accurate estimate of over-all U.S. military matériel production during the

coming year, and despite the fact that there is now little basis for determining how effective the revised allocations procedures will be in channeling matériel to the NATO area, it can still be stated categorically that vigorous efforts will have to be made if the U.S. is to meet even the substantially reduced end-item delivery targets outlined in this report. Furthermore, if the major objective of building up the European defense production potential is to be realized, the responsible agencies of the U.S. Government must take major steps to secure the placement of offshore procurement contracts in a pattern consistent with this objective.

2. *Austria, Yugoslavia and Spain.*

a. Austria. The political stability which has characterized Austria since 1945 continued during the past year. However, since the major parties have concentrated on the protection of the interest groups which they represent, Austrian economic policy has been one of compromise and expediency, satisfactory to neither party and frequently detrimental to the interests of Austria as a whole. Pressures by the U.S., U.K., and France to conclude a peace treaty with Austria have proved fruitless. The Soviets have refused to attend a meeting of the Treaty Deputies since 1950 and have rejected an Allied proposal for a short-form treaty. The 1946 Control Agreement [5] continues to serve as the occupation statute, and the Allied Council retains supreme power.

A military aid program of $70 million (Stockpile A) was set up in fiscal 1950, the plan being to turn the matériel over to Austria when a peace treaty was signed and an armed establishment was authorized. So far, there has been no implementation of the program, except for the issuance of small arms and personal equipment for the training of *gendarmérie* cadres.

Under the postwar bilateral programs, Austria has received more than $1.5 billion in grant aid. Since Austria is prohibited from engaging in a defense program, this aid has been primarily directed toward assisting Austria to achieve the productive potential to achieve economic viability. This objective has been accomplished in large measure. Despite this evidence of progress, basic problems still await resolution. Among these are inflation, continuation of balance of payments deficit, low productivity, and the general rigidity of the economy, which has impeded expansion of the economic base.

b. Yugoslavia. The stability of the Yugoslav Government has not changed to any significant extent during FY 1952. The hostility between the Kremlin and its satellites, on the one hand, and Yugosla-

[5] For documentation on the 1946 Allied Control Agreement under reference, see *Foreign Relations*, 1946, vol. IV, pp. 348–354 *passim*.

via, on the other, did not lessen during the year. The rift between them still appears to be unbridgeable. Yugoslavia's relations with Italy have become more hostile and more potentially explosive as the result of the U.S.-U.K.-Italian understanding concerning Zone A of the Free Territory of Trieste. On the other hand, Yugoslavia's relations with Greece and Turkey became markedly more cordial in the period.

Yugoslavia had on hand, as of June 30, ground and naval forces of approximately the size contemplated in JCS force goals. Considerable expansion of air forces is planned. Combat effectiveness of all services is rated as low by U.S. standards, the greatest weakness being lack of modern equipment.

The tripartite aid programs have in large part enabled Yugoslavia to maintain and enlarge its army and preserve minimum living standards, despite the disruption of trade patterns as a result of the 1948 Cominform break and the 1950 drought. In addition, the U. S. Government has directed its influence toward securing a consolidation and reduction of the unrealistic Yugoslav investment program, and a postponement of large loan repayments during the period of aid. The aid has, nevertheless, enabled the Yugoslav Government to continue its development program along more modest lines by encouraging the long-term financing of capital imports by the International Bank.

c. Spain. The Spanish Government has been stable and the strength of the Communist Party as a disrupting influence in Spain is considered to be insignificant. Economically, the major problems faced are low production, maldistribution of income, and inflation. To date, the only U.S. aid program to have been implemented in Spain is the $62.5 million loan authorized in fiscal 1951. Administered by the Export-Import Bank, substantially all the loan funds have now been committed, about half for basic current imports and half for capital development.

In fiscal 1952 the Congress appropriated $100 million exclusively for military, economic and technical assistance to Spain under terms and conditions to be established by the President. So far, none of these funds have been allotted or obligated, pending the outcome of negotiations currently under way with Spain for conclusion of necessary bilateral aid agreements for military and for economic assistance. These agreements are, in turn, contingent upon the broader negotiations now being carried on with the Spanish Government in connection with base rights.

3. *Near East and Africa, Including Greece and Turkey.* Military assistance in the Near East and African areas was extended during FY 1952 to Greece, Turkey and Iran, continuing programs which

had been in existence since 1947 in Greece and Turkey, and since 1948 in Iran.

The Greek forces as a whole are considered well-led, satisfactorily trained, and, except for some matériel shortages, prepared to carry out their wartime mission. With steady progress in combat worthiness, with the aid equipment already granted and with the materiel to be delivered against FY 1953 program requests, Greek forces are believed capable of repelling attacks by Soviet satellite forces and causing a maximum delay in such an attack even if it is directly assisted by the USSR.

Turkish forces are regarded as capable of defending successfully the areas to which they have been assigned against the types of units which are likely to be employed against them, unless they are overwhelmingly outnumbered. Their mission is essentially one of defense of Turkey. Units are not equipped or prepared for overseas movement, although consideration is being given to the possibility of Turkish participation in the defense of neighboring Middle Eastern territory.

The military program of the Iranian Government is designed for maintenance of internal security with but limited capacity to resist aggression. With regard to JCS standards, strength in terms of manpower is within 5% of the approved goals. Equipment is generally adequate, considering training and capacity to absorb. Serious deficiencies in leadership, planning, training and logistical support restrict military effectiveness to the maintenance of internal order.

Cumulative deliveries to the three countries against FY 1950–52 programs amounted to $320 million—36% of the total programmed amount.

The admission of Greece and Turkey into NATO took place only at the Lisbon meeting in February. Consequently, neither country's military contribution enters into the so-called Lisbon force goals. Nevertheless, both Greece and Turkey have raised and maintained force levels up to approved JCS standards, and far beyond their ability to support without continued U.S. or other assistance. Both lack the industrial and technical base to supply military matériel on a large scale or to provide a substantial proportion of the "common use" items required by the armed forces: petroleum products, medical supplies, and even some food and clothing items. Economic aid programs in Greece and Turkey were adjusted to take account of defense requirements, which consume about 40% of the total government budget in each country.

Economic aid programs throughout the balance of the Near East and African area were keyed to meet the crucial Arab refugee problem, the neutralism in international relations which has characterized the Arab world, and the deterioration in Israel's economic

capabilities during a period of rapid economic expansion and heavy absorption of immigrants. $50 million were provided under Section 205 of the Mutual Security Act of 1951 for refugee relief and resettlement in Israel. In addition, $13.5 million was made available for economic assistance to Israel. Critical foreign exchange shortages made it necessary to provide the bulk of such aid in the form of reimbursements to the Israel Government for expenditures already made toward these ends.

Point Four efforts in the area ranged from relatively small efforts in Iraq and Saudi Arabia to more elaborate proposals for Iran, Israel, Jordan and Lebanon. Programs have been kept small in oil-rich Iraq and Saudi Arabia, but maintained to induce the adoption of mutually beneficial projects which would not otherwise be undertaken. In the less-fortunate neighboring states and in North Africa, where the need for technical assistance is equally pressing, the United States is accepting a larger portion of the financial burden. Throughout the area, however, the main accomplishment of the year was the final signature of Point Four general agreements and the determination of specific program needs. There was relatively little substantive progress to report. Notable exceptions are the Israel trainee program, the U.S. finance team in Saudi Arabia, the well-advanced Liberian program, and Iranian "impact" programs in locust control, malaria control and well-drilling.

Communist influence in most of these countries during FY 1952 has been negligible or non-existent. In most countries the Communist Party has been officially outlawed. Party organization appears to be weak and ineffectual throughout most of the area. Communist strength, however, made itself felt in Iran and Egypt. In both countries, nationalist extremists joined forces temporarily with Communist groups in outbursts of violence against government forces. In Iran the Communist (Tudeh) Party shows evidence of recent gains in strength and organization. In each case the nationalist group broke with the Communists after a brief period of common cause, but the speed and success with which the Communists united with nationalist fanatics to whip up anti-Western emotion gives cause for concern.

The political unrest in Iran is inextricably bound up with the economic crisis brought about by expropriation of British petroleum properties. Western defense planning has had to be adjusted in the light of the total loss of Iranian oil. The Iranian economy has been seriously disrupted by the loss of oil revenues. The FY 1952 Iranian Point Four program included a $5 million U.S.-financed commodity import program under the fairly flexible Act for International Development interpretation which obtained during the year. A further extension of this type of economic assistance

seems inevitable. To avert the possibility of Communist domination in Iran, the United States may have to extend special economic assistance.

Progress in initiating development projects under the technical cooperation program was, in the main, disappointingly slow, particularly in the Arab States. The underdeveloped countries of the area showed considerable reluctance in committing themselves to joint programs of technical cooperation. Arab resentment over the volume of assistance accorded to Israel complicated the problem. In addition, the task of locating, hiring and securing clearances for technicians created a further barrier to progress. Less than 50% of authorized U.S. personnel were on duty in the field as of June 30, 1952.

There is now insufficient legal authority to carry on the types of economic development programs designed to meet the long-range problems of the area. Some countries, e.g., Syria, require, in addition to present programs for technical education, long-range programs for capital development. The Act for International Development is now limited by Congressional action in connection with the FY 1953 appropriation requests to the furnishing of "technical assistance" in the sense of technical demonstration work. Commodity and capital assistance is generally limited to programs directly related to this basic educational objective. If the United States is to contribute more directly to the solution of the long-range development problems, the scope of presently legal economic aid activities would have to be broadened by law to include assistance for fundamental economic development.

4. *Far East and South Asia.* Political instability and threats to internal security are significant factors in most of the countries of this area. One of the major objectives of U.S. policy is, accordingly, to increase popular support for the governments. With the possible exception of Thailand, and in spite of occasional temporary setbacks elsewhere, there is growing evidence that the presence of American aid missions is steadily creating a climate of opinion that enables local governments to push ahead courageously with internal economic and social reforms without which the loyalty and the faith of the people in the cause of the free world, and their willingness to fight for that cause if necessary, cannot be expected to exist.

To further the U.S. objective of strengthening against aggression the present moderate and western-oriented governments of this area, the U.S. has undertaken major military assistance programs for Indo-China and the Chinese Nationalists. JCS force goals for Indo-China were set on the assumption that there would be no invasion by the Chinese Communists. Measured against these goals,

good progress has been made. The build-up of French forces has approximately attained these goals. 50% attainment is reported with respect to the native forces of Vietnam, Laotia [*Laos*], and Cambodia. Nevertheless, despite the highest priority having been given to allocations of military matériel, less than ¼ of the army program so far financed (exclusive of Lisbon off-shore procurement) had been shipped by June 30, and less than 15% of programmed air force matériel.

As to Formosa, forces are numerically about at the level prescribed in JCS goals, which assume that their mission will be the defense of Formosa. However, available equipment is scanty and combat effectiveness of all three services is rated at 20–25%. Enough MDAP matériel was programmed through fiscal 1952 to supply about 50% of the equipment needs of ground forces. Shipments by June 30 had reached 30% of the amount so far programmed. Out of the $120 million air force program, shipments were 1%.

About 15–20% of the programs approved for the Philippines and Thailand (about $100 million each) had been shipped by June 30.

In Indo-China, Formosa, the Philippines, and Thailand, the U.S. had undertaken economic and technical assistance programs designed to strengthen the financial and economic fibre of these countries, thereby permitting their governments to maintain internal security and stability and provide a solid base for their defense efforts.

U.S. economic and technical assistance programs in Indo-China have three main purposes: (a) provide economic support for the French and Indochinese anti-Communist military forces; (b) at the same time assist in securing a greatly improved effectiveness on the part of the newly created governments of the Associated States, without which nothing better than stalemate appears possible; and (c) help increase production and pave the way for future economic development. Critically needed support has been given to the military forces through repair and maintenance (little actual improvement has been possible) of highways, bridges, ports and waterways; through care and resettlement of refugees from combat and guerrilla areas; and in various indirect ways. Although the governments have far to go in recognizing and forcefully grappling with their responsibilities for providing leadership and basic services to their people, the MSA Program has registered some initial gains on this front. Production, particularly of rice, has been assisted to some extent.

In Formosa the principal purposes of economic aid programs are: (1) to support the military establishment, (b) to maintain a standard of living adequate to insure support of the Government by the

general population and prevent unrest that would endanger internal security, and (c) to help the island become independent of outside economic assistance in a relatively short period.

The program has effectively buttressed the military effort by bringing in common-use imports and supplying counterpart to cover the associated local costs, and by helping to rehabilitate vital transport and power facilities, etc. Through heavy commodity imports (mainly producer goods), active participation in the work of the Economic Stabilization Board, and support of the many-sided work of the Joint Commission on Rural Reconstruction (JCRR) among the peasants, the program has also had a marked degree of success in offsetting the heavy economic strain imposed by military expenditures. Economic stability has been substantially maintained. Price curves have tended to flatten out. Notwithstanding multiple burdens on the farmer, he appears, on balance, to be at least as well off as pre-war. Communist-inspired unrest is of negligible proportions. The program has contributed substantially to the industrial expansion now in process. Aid to basic utilities, help in building fertilizer production capacity, importation for sale of vital raw materials and manufacturing equipment items, and the financing of a broad engineering advisory contract with a private American firm have all played a significant part. The point has just now been reached where joint consideration with the Chinese of a timetable for termination of economic aid appears feasible.

In the Philippines, economic and technical assistance is designed to: (a) improve the efficiency, integrity and vitality of government administration; (b) institute economic and social measures for the improvement of the living standards of the people, both as a necessary means of achieving internal security and in order to strengthen the permanent foundations of a democratic society; (c) build up production both for local use and for export; and (d) spark an economic development program involving diversification of activity and affording maximum opportunity for private enterprise. The program has secured measurable improvement in tax assessment and collection, customs, and import controls; stimulated a broad effort to raise competence in public administration generally; been partially responsible for a marked rise in agricultural production; launched promising campaigns in public health and education; and made a successful start in assisting in the settlement of the large and fertile island of Mindanao, which is proving an important factor in pacification of the Huks. A vigorous effort to promote industrial expansion and diversification, on a private-enterprise basis, is about to begin. Social reforms, however, are encountering difficulty, despite earlier pledges. For lack of political support, suc-

cess is not being achieved at the moment in securing needed legislation to ameliorate the lot of the farmer and laborer.

5. *American Republics.* U.S. programs in this area must be conducted against a background of far-reaching political, social and economic adjustments. These adjustments have afforded nationalist and Communist groups a wide opportunity to provoke dissension in existing political institutions and to associate the so-called economic imperialism of the United States with the underdevelopment of the area. While political instability has been no worse than in the past, most of the governments have been preoccupied with domestic problems.

Despite this preoccupation, the majority of Latin American governments favor collective defense of the hemisphere. U.S. Military Grant Aid programs for the Title IV countries (first provided for in the FY 1952 MDAP program) have been designed for a very limited objective: to meet equipment and training deficiencies of selected units of certain Latin American nations which these nations have agreed to earmark for specific missions of hemisphere defense, missions which would otherwise, in the event of war, require the deployment of U.S. forces. Bilateral military assistance agreements have been or are being negotiated with the more important governments. 7 have been signed to date. As of June 30, no shipments of military assistance matériel had been made to Title IV countries, since program refinements and matériel deliveries were delayed by agreement negotiations. Programs totaling more than $34 million had been established, however, and the initial shipment went forward on July 25.

The FY 1952 technical cooperation program was predicated upon the demonstrated ability of the Latin American governments effectively to utilize Point Four type assistance, coupled with the manifest need to encourage political stability. Another major purpose was to increase the production of strategic materials. The $19 million in available funds (including carry-overs from FY 1951) provided an important contribution to the attainment of U.S. political and economic objectives in the region. But the total program, amplified by private and public loans, private investment and expenditures of local governments, was enormously larger. Against the availability from U.S. funds of $19 million, the Latin American governments contributed about $28 million toward the cost of technical cooperation programs, a less favorable ratio than had obtained in FY 1951. This ratio did not reflect a smaller total participation in program cost, but rather a larger U.S. participation. The 1951 ratio of three to one is expected to be reattained.

6. *United Nations Programs.* Of the many international programs conducted by the United Nations and affiliated specialized agencies

during FY 1952, three were of particular significance in that they complemented or paralleled activities in one or more sectors of the Mutual Security Program: The UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the U.N. Technical Assistance Program, and the U.N. International Children's Emergency Fund (UNICEF).

UNRWA was established in 1950 to resolve the problem of 850,000 Arab refugees from Palestine who have been recipients of relief from the United Nations since 1948. Its activities are concentrated in Lebanon, Syria, Jordan, Egypt and Iraq. During FY 1952, refugee relief has been provided at an over-all cost of $3 per person per month. U.S. contributions to UNRWA and its predecessor, U.N. Relief for Palestine Refugees, have totaled over $93 million, against $64 million from 41 other nations. The contribution in FY 1952 was $50 million. The UNRWA program for the three years ending June 30, 1954 calls for $250 million, of which $200 is earmarked for rehabilitation and $50 for relief. Relief expenditures are to be reduced from the level of $27 million in FY 1952 to $18 million in FY 1953 and to $5 million in FY 1954. Plans are well under way for the integration into the Near Eastern Economy of some 150,000 refugee families.

The $20 million 1950-51 U.N. Technical Assistance program, to which the U.S. contributed over $12 million, was supported by 55 countries and operated in 69 countries. 64 countries have pledged support for the "second financial period" (calendar 1952), and 81 countries have requested technical specialists or training services. The U.S. pledge for 1952 is $11 million. As of June 1, 1952, 681 experts were working in the field under the U.N. Technical Assistance Program, and 758 trainees were studying abroad. This U.N. program has several advantages for the U.S.: it has demonstrated its ability to operate in areas where activity would be difficult for the U.S. alone; it costs less to operate since the U.S. pays only part of the expense; and it makes possible the utilization of foreign specialists in fields where U.S. technicians might be difficult to find. It is true, however, that U.N. programs have been carried on in many of the countries where the U.S. has also been operating. There is an important need for program coordination to prevent duplication of U.S. and U.N. efforts.

The emphasis in the U.N. International Children's Emergency Fund (UNICEF) program has been directed away from its earlier focal point—the assistance to child victims of aggression in countries which had received UNRRA aid—toward long-range programs for children in underdeveloped countries. Three-fourths of its present funds have been apportioned to Asia, Africa, Latin Amer-

ica and the Eastern Mediterranean countries. All programs in Eastern Europe are terminated or in the last stages of completion.

II. EUROPEAN NATO AND WESTERN GERMANY

1. *International and Internal Political Developments*

a. Stability of governments. NATO governments, with the exception of France, are rated as being generally stable and as giving reasonable promise of continuity for at least the next year or so. The Pinay government is relatively more stable than recent French governments, although the chances for its survival for a considerable period after the Assembly reconvenes in October are not rated as particularly good. The Governments of the United Kingdom, Belgium, and Denmark do not enjoy very comfortable margins in the parliamentary majorities at their command, a fact that frequently weakens their ability to take a firm, all-out stand on issues related to the fulfilment of their NATO commitments. In the U.K., however, the defense program was initiated by the Labor government and receives the support of the Labor Party, except for the Bevanite minority. The Italian Government is prevented from taking positive action on many issues because of the forthcoming national elections. Aside from communism, there are no serious threats to internal political stability in any of the European NATO countries. The rising power of the right in Italy and the royalist question in Belgium are potential threats to internal stability, although neither of these is felt to be immediate.

b. Communist strength. The Communist Party appears to be a major threat only in France and Italy. In other NATO countries, notably the Scandinavian members, the Netherlands, and the U.K., the Communist potential for undermining internal security and contributing to governmental instability is almost non-existent. Although not a serious threat, there are some areas of Communist strength in certain other countries, such as Belgium and Western Germany. For example, controlling Communist infiltration of the key labor unions remains a troublesome problem in Belgium.

Communist Party membership and voting strength in Western Europe have declined sharply since the early post-war years. Total membership in the European NATO countries and Western Germany is estimated to have declined from 3,500,000 in 1946 to 2,600,000 at present. In countries other than France and Italy, Communist voting strength has been about cut in half during the past four or five years.

The French Communist Party remains a powerful and cohesive organization claiming around 650,000 members, and is rated as having a high capacity for subversive activity. In the case of Italy,

the recent elections indicate that the government parties have lost 25% of their electoral support since 1948. This has caused the Italian Government to postpone or avoid positive action on a number of vital matters until after the national elections in the spring of 1953.

For the coming year, the outcome of next year's national election will be not only crucial for Italy but extremely important for the West as a whole. Should the Democratic parties fail to command a working majority in the new parliament, the road to Communist domination will be open. Should the Democratic elements be placed in a minority, a Communist take-over would be nearly immediate unless prevented by an alliance of the Center parties with neo-Fascists or other extreme right elements or both. In either case, the NATO and united Western front would be seriously shaken.

c. Developments in NATO. One year ago NATO was in a critical situation. Despite many long months of discussion in Council meetings and elsewhere, no agreement had been reached on such pressing problems as German participation in Western defense and the admission of Greece and Turkey into NATO. NATO had no adequate knowledge of where it stood or of where it was going. There was widespread feeling that military requirements, as embodied in the Medium Term Defense Plan, were not realistic. Too much emphasis was placed on long-range planning and not enough on the need for a rapid build-up to meet the immediate danger. There was no clear idea of the political and economic capabilities of the NATO countries. Confusion as to the scope of the North Atlantic Treaty led many Europeans to think that NATO was being used by the U.S. solely as a military alliance without regard for the development of closer political and economic ties. Finally, there were serious defects in the organization of NATO which resulted in duplication of effort and general inability to reach decisions and take action. All these factors produced dissatisfaction and discouragement, and, as a result, NATO was for a time unable to move ahead at an adequate pace in many areas.

One of the major achievements of the past year in clearing the way for further progress in the defense build-up was the work of the Temporary Committee of the Council. As a result of the TCC's work, NATO gained several things which it previously lacked. First, it gained a realistic and carefully screened statement of its military requirements, as prepared by the Screening and Costing Staff (SCS). Second, an over-all program was drawn up which, for the first time, tackled the problem of reconciling military requirements with the political and economic capabilities of the NATO nations. The TCC force recommendations were accepted by the NATO countries with a minimum of political strain, although the Bel-

gians at first objected strongly to the approach used. These recommendations formed the basis for the 1952 force goals agreed to at Lisbon. The force goals placed emphasis on the immediate build-up, rather than on long-range plans for the distant future.

The Lisbon agreements did a great deal to restore confidence in the NATO program. Governments were given definite targets and a firm basis for future planning, as well as assurance that the U.S. would not try to push NATO countries to the point where they would be threatened with internal collapse. As a result, the people in the European countries gained confidence that NATO was succeeding. The advantages gained from the TCC experience are to be continued in the future through the Annual Review process.

A second major accomplishment of the past year has been the negotiation and signing of the EDC Treaty,[6] the NATO–EDC Protocol, and the convention on relations with the Federal Republic of Germany. These three related agreements are the key to solving a major problem in the defense of the NAT area—German participation in Western defense—while at the same time avoiding the problem of German membership in NATO. The German convention,[7] when ratified, will restore Germany to the degree of independence necessary to insure German willingness to participate; the EDC Treaty will make it possible for Germany to participate within the context of an integrated Western Defense Force in a manner acceptable to those countries which fear a resurgence of German militarism; and the NATO–EDC Protocols will tie the EDC to NATO so as to insure reciprocal guarantees between Germany and NATO. Ratification of the Schuman Plan[8] and preliminary steps toward establishing Schuman Plan institutions have further reinforced this progress. It should be emphasized that the difficult tasks of securing ratification of the EDC Treaty by all members and ratification of the German contract by France and Germany still remain.

The U.K. has not joined either the EDC or the Schuman Plan (primarily because of its ties outside the continent of Europe and its policy of avoiding identification as a strictly European power), but has nevertheless agreed to cooperate closely with these continental institutions.

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[6] For documentation on the European Defense Community, see vol. v, Part 1, pp. 571 ff.

[7] For documentation on U.S. participation in tripartite and quadripartite discussions on establishing contractual relations with the Federal Republic of Germany, see volume VII.

[8] For documentation on U.S. interest in the Schuman Plan for a European Coal and Steel Community, see volume VI.

Thirdly, as a result of action initiated at Ottawa,[9] Greece and Turkey acceded to the North Atlantic Treaty. This brought to a successful conclusion prolonged efforts on our part to strengthen NATO's southern flank by bringing these countries into NATO. Inclusion of Greece and Turkey was for a long time opposed by some of the smaller nations, particularly Denmark, Norway, and the Netherlands. Their eventual agreement to bringing in Greece and Turkey was obtained without unduly straining internal NATO political relationships, although there would be strong resistance to further extension of the NATO area.

Changes during the past year in NATO organization resulted in improvements in NATO's ability to reach decisions and take action. At Ottawa for the first time Council meetings were attended by the Foreign, Defense and Finance Ministers of each country. Although Council meetings as a result became somewhat large and unwieldy, this disadvantage was more than compensated for by the fact that Council decisions received broad support from key ministries within each government. The major reorganization plans agreed at Lisbon should further strengthen NATO, provided they work out in practice. Centralization of NATO headquarters should improve general efficiency. Creation of a high-level Permanent Council is designed to enhance NATO's ability to reach important decisions. Creation of an International Staff and a permanent Secretary-General should make it possible for NATO to become a more effective operating organization.

Some progress was made during the year in developing the non-military objectives of NATO, although there is strong feeling among the European members that more should be done in this field. A working party of small nations established at Ottawa developed a set of recommendations which was accepted by the Council at Lisbon. The Council at Lisbon also passed a strong resolution on the importance of non-military objectives. Council discussion of political matters has increased and has served a useful purpose in demonstrating to the European members that NATO is something more than a purely military organization.

2. *Progress in Build-Up of Military Forces*

a. General Review. In February 1952 the NATO countries agreed at Lisbon on firm goals for the build-up of their ground, naval and air forces through December 31, 1952. Provisional and planning goals were established for the periods through calendar 1953 and 1954, respectively. The goals were stated in terms of combat-ready forces, and stiff criteria were established as to the standards of

[9] For documentation on the Seventh Session of the North Atlantic Council at Ottawa, Sept. 15–20, 1951, see *Foreign Relations*, 1951, vol. III, Part 1, pp. 616 ff.

readiness to be used in measuring the extent to which force commitments were being met. These standards measure units against a required combat-readiness on M Day for air units; and at stated periods ranging from M to M+30 days for Army units, and from M to M+180 days for naval units.

Although less than 5 months have elapsed since the Lisbon meetings, the current status and the current rate of build-up of NATO forces provides some basis for estimating the probability of attaining the Lisbon goals for December 31, 1952. The prospects of meeting these goals are discussed below separately for ground, naval and air forces. Generally, in cases where shortfalls in ground forces are predicted as of December 31, 1952, the units required to meet force goals will be actually in existence but will not yet meet the required readiness standards.

Estimates are based on information and judgments provided by the Military Assistance Advisory Groups in each of the NATO countries, as revised and analyzed by JAMAG. The Department of Defense is engaged in a comprehensive analysis of the status of NATO forces as of December 31, 1952 in connection with the development of the U.S. position for the NATO Annual Review. The results of this study should be available shortly as supplementary data.

b. Ground Forces. On June 30, 1952, European NATO countries (i.e., NATO countries excluding Greece, Turkey, the U.S. and Canada) had available for commitment by SACEUR 22 M-through-M+30 divisions. By December 31, 1952 it is estimated that these countries will have available 28⅔ divisions or about ⅔ of their Lisbon goals of 43⅔ divisions;† with an additional 16⅔ divisions available on an M+30+ basis in varying degrees of readiness. The anticipated shortfall of 15 divisions is due to failures to provide active-duty personnel, training, and (to a lesser degree) equipment sufficient to bring the units up to the required standards.

Substantial agreement between anticipated performance by December 31, 1952 and the Lisbon goals is indicated for divisions in readiness categories through M+3. However, a shortfall of almost 50% of units at M+15 to M+30 standards of readiness is expected. These are the forces designated to augment and back up the covering force of M-Day and M+3 which will have to bear the initial brunt of any aggression in Western Europe. In view of the fact that the Lisbon goals are admittedly militarily inadequate, the expected

†Excludes two British reserve divisions available at M+60 and M+90 which were included in Lisbon M+30 goals for accounting purposes only. [Footnote in the source text.]

shortfall in augmenting these covering forces means serious impairment of SACEUR's ability at the end of the current year to contain an enemy attack for more than a very limited period.

It should be emphasized that these estimates with respect to the number of effective divisions through M+30 take no account of the adequacy of combat and logistic support or of wartime reserves. Both elements are admittedly inadequate or on an extremely austere basis, a situation which inevitably sets serious limitations on the ability of combat ready units to sustain operations for an extended period. For purposes of analysis, however, these problems are separable from the question of the adequacy of organic combat divisions in terms of trained personnel and equipment, which were the only readiness criteria established at Lisbon for major combat units.

The following table [10] summarizes the actual June 30 status, and anticipated December 31, 1952 status of NATO ground forces, by type of division and by readiness category. Figures are only for divisions to be contributed by European NATO countries. Seven and two-thirds U.S. and Canadian divisions are *not* included. Addition of these 7⅔ divisions to the 43⅔ divisions indicated in the table would give approximately the 50 divisions which constitute the popularly known Lisbon goals.

c. Naval Forces. As of June 1952, the only substantial present and prospective shortfalls in meeting Lisbon goals for December 31, 1952, for naval units related to escorts, minesweepers (AM and AMI) and submarines. Between June 30 and December 31, some closing of the gap for ocean minesweepers available by M+180 is indicated, as well as a small increase in available inshore minesweepers at M+180.

The expected shortfall in inshore minesweepers at M+180 is appreciable (approximately 25% of the Lisbon goal) and stems primarily from the French decision to eliminate, as impracticable and unsatisfactory, 31 fishing boats previously scheduled for conversion to fill their M+180 commitment for that type of vessel. With the exception of these inshore minesweepers, it appears probable that the Lisbon 1952 naval force goals will be substantially met and, in certain cases, exceeded. This general conclusion should be accepted, nevertheless, with certain reservations with respect to special conditions in specific countries.

Total shipments as of June 30 were $340 million out of a cumulative program of $1,200 million, or about 28% in dollar value. Table

[10] Not printed; it summarized actual and anticipated NATO ground force levels, June 30–Dec. 31, 1952, followed by a three-page discussion of individual readiness categories for NATO ground forces.

2 on the next page [11] indicates the numbers of major vessels programmed through fiscal 1952, number shipped through June 30, and anticipated total shipments as of December 31, 1952.

As far as is known, delays through December 31, 1952 in delivery of items in the FY 1950–FY 1952 Navy matériel programs which can be considered as contributing to NATO shortfalls in meeting Lisbon goals will have occurred only in the case of 6 PC's for Denmark and the Netherlands, and sonar equipment for Portuguese patrol craft.

d. Air Forces. The number of effective front-line aircraft available as of June 30 was more than ⅓ below the December 31, 1952 Lisbon goals. By December 31, this shortfall is expected to be reduced to somewhat less than 6%. The shortfall, however, appears concentrated in the critical categories of interceptors and fighter-bombers and amounts to nearly 16% of the Lisbon goal for Interceptor Day Fighters-Fighter Bombers (IDF/FB). The situation in summary is as follows:

	Effective 30 June 1952	Estimated Effective 31 Dec 1952	Lisbon Goal 31 Dec 1952	Anticipated Shortfall or Overage
Total Front-Line Aircraft (M Day)	2,038	3,087	3,276	−189
Interceptor Day Fighter	878	1,225	1,243	−18
IDF/FB	624	1,053	1,238	−185
All-Weather Fighter	117	294	326	−32
Light Bomber	28	66	66	0
Medium Bomber	139	144	144	0
Tac Recon	127	161	109	+52
Transport	123	142	144	−2
Maritime	2	2	6	−4

Actually the above table exaggerates the shortfall (185) in the IDF/FB category, at least in so far as the mere *number* of aircraft available is concerned. At least 94 of this shortfall will be on hand in Denmark. It is the lack of unit training in this case which precludes their being included as *effective* front-line aircraft. On the other hand, a rigorous application of readiness standards would probably reduce further the figures on effective front-line aircraft from those given in the above table. There is evidence, for instance, that inadequate pilot training and unit training, lack of organizational equipment, and even failure to approximate authorized per-

[11] Not printed.

sonnel strengths for certain air units, singly or together, seriously limit the combat readiness of one or more air units in nearly all the NATO countries. The above figures must therefore be regarded as upper limits on the probable number of effective front-line aircraft which European NATO countries will be able to contribute by December next towards meeting their 1952 Lisbon commitments.

It should further be emphasized that, in estimating the number of effective aircraft to be available by December 31, 1952, no allowance was made for requirements for combat reserve aircraft. Such reserves are, of course, virtually non-existent except for the U.K. The present estimates of front-line aircraft refer, therefore, to units in what has frequently and appropriately been dubbed a "one-time" air force. This fact should not be overlooked in appraising the considerable progress which it is anticipated will be made by December 1952 towards meeting the Lisbon goals.

Total shipments as of June 30 were valued at $300 million, 13% of cumulative programs totaling $2,300 million. Table 3 on the next page [12] indicates the numbers of aircraft (by type) programmed through fiscal 1952, shipped through June 30, and anticipated total shipments as of December 31, 1952.

The projected shipment of unit equipment aircraft through December 31, 1952, indicates that sufficient aircraft will be on hand in each NATO country to permit activation of units as scheduled and to meet most of the peacetime attrition requirements. The remaining shortage in peacetime attrition aircraft will have been eliminated by June 30, 1953.

While delays in MDA shipments of ground handling equipment are reported to have interfered with the ability of some countries to obtain maximum effectiveness of aircraft on hand, the point is in sight where delays in pilot training in the NATO countries may be a limiting factor and may even require postponement of MDAP aircraft shipments to avoid non-utilization of MDAP-supplied matériel.

3. *Economic Situation.*

Throughout fiscal year 1952 several continuing major problems were encountered in administering the Mutual Security Program. First, every possible support had to be given to the military build-up. Second, there had to be taken into consideration the fact that the build-up was imposing a heavy economic burden on countries that were just emerging from war and postwar economic and political disruptions, and were vulnerable to drastic economic dislocations. Third, it had to be recognized that while the build-up re-

[12] Not printed.

quired an immediate economic and military effort, further effort would be required to maintain the forces after the higher levels had been reached. The force in being after 1955 would continue to impose a heavy economic load on the European countries, and if they were to carry this load their economies would have to be further strengthened. Fourth, the program had to safeguard and continue to promote the long-term aims of U.S. foreign policy in Europe which began with the Marshall Plan.

The long-term objectives are solvency—ability to meet the required import level without extraordinary U.S. aid—and the progressive unification of Western Europe. Concurrently with the promotion of these specific aims the program had to consider the desires of the European people for a rising living standard and their reasonable hope that Western Europe would at some early date achieve sufficient economic strength to tackle some of its most pressing social and economic problems, among them the continued large structural unemployment in Western Germany and in Italy; the under-development of Greece, Turkey and Southern Italy; and the persistence of large Communist parties in Italy and France.

a. Growth of Economic Base. Despite the burden of the rearmament effort, further progress has been made in expanding Western European trade and production. Coal and steel production, agricultural output, and the foreign trade of the NATO and associated countries all rose to new postwar highs, and most of them were well above prewar.

The most spectacular advances were made in steel and electricity production. Output of steel ingots and castings for the NATO countries and Germany, which had begun to exceed 1938 levels as early as 1949, continued to grow from 48.3 million metric tons in 1950 to 53.6 million tons in 1951, and electricity output rose from 192 billion KWH in 1950 to 214 billion KWH in 1951, thus more than doubling prewar production. Motor vehicle output showed only a slight increase during the year under review, but with 1.5 million units produced, stood almost two-thirds higher than prewar. The combined industrial index for the NATO countries and Germany rose from 135% of 1938 to 144% during the year reviewed.

Significant advances were also made in coal production. Output for the NATO countries as a whole grew from 338 million tons in 1950 to 342 million tons in 1951, for the first time exceeding 1938 production. Germany also increased its coal output by 7.6 million tons to 118.8 million tons, but production was still considerably below the 136 million tons mined in the Ruhr area in 1938. Total coal production for NATO plus Germany amounted to 460.6 million tons, still about 14 million tons short of 1938 levels.

Substantial increases were also scored in agricultural production. Output of milk, meats, fats and oils, and bread grains all rose, raising the index of gross agricultural production for the OEEC countries from 103% of 1938 in fiscal 1950 to an estimated 112% in fiscal 1952. Foreign trade of the NATO countries and Germany increased sharply from a monthly average of $1.4 billion in 1950 to close to $2 billion in 1951.

The continuous growth of Western Europe's economic base had an important politically stabilizing effect. It proved that a measure of rearmament could be carried on while still expanding the economy as a whole. Most important of all, the continuous economic expansion made it possible for most of the NATO countries to carry the armament burden without serious inroads on the living standards of their people. In most of the NATO countries standards of living—admittedly lower than desirable—continued to improve somewhat, although at a far lower rate than before the Korean war. A notable exception is the United Kingdom where living standards declined slightly.

b. Balance of Payments. The year was marked by serious balance-of-payments crises in the two principal NATO countries. France lost $100 million in reserves, and the U.K. lost $2 billion in gold and dollars. The weakness of the French and British gold and dollar reserves has been an important factor in the stretch-out of the armament program of these countries. Most of the other NATO and associated countries ended the year with reserves that were equal to or slightly higher than the reserves in the preceding year.

The gold and dollar drain experienced by France and the United Kingdom was closely related to the violent fluctuations in the prices of commodities that have marked the post-Korean period. In the immediate months following the outbreak of the Korean war, rubber and the coarser wools rose to three times the price they had commanded in early 1950. Other fibers and the non-ferrous metals, especially tin, also showed remarkable increases. As a result, the sterling area, a large exporter of these commodities, was able to raise its gold and dollar holdings from $2.4 billion in June 1950 to $3.9 billion in June 1951. The period of large reserves, however, was short-lived. The drain began when the United Kingdom, which had consumed its inventories in the hope of price break, had to replenish its stocks of raw materials, while the other members of the sterling area, cashing in on their earlier gains, raised the level of their imports from the dollar area. By December 1951 sterling area reserves had fallen to $2.3 billion and by March they had decreased to $1.7 billion, remaining at that level through June 30. EPU gold and dollar settlements accounted for over $400 million of this loss in reserves.

In the case of France the generally higher cost of imports was aggravated by political and budgetary uncertainties which induced a flight from the franc. The result was that France, which had held a net creditor position in the European Payments Union in early 1951, not only became a net debtor in 1952 but was required to make gold and dollar settlements of $130 million during the fiscal year. With the prospect of somewhat greater financial stability, France's balance-of-payments position has improved in recent months. France's trade deficit narrowed in the second quarter. Furthermore, the gold loan of the Pinay government appears to have resulted in substantial additions to French gold reserves.

4. *Defense Expenditures and Defense Production.*

Countries in the NATO area increased their total defense expenditures from $6.2 billion in fiscal 1951 to $8.8 billion in fiscal 1952. The U.S. agencies concerned believe that, by and large, assuming no major change in the degree of international tensions, and leaving aside increments in defense expenditure which may be expected to accompany further expansion of total production, the current orders of magnitude of European defense expenditures are as high as can be supported.

Expenditures by the Federal Republic of Germany were for the most part associated with occupation costs and remained at about the same level as in fiscal 1951. Despite the encouraging overall progress in increasing NATO outlays for defense, expenditures made by France, the U.K. and Italy fell short to some extent of the levels which U.S. Mutual Security agencies had hoped might result from the TCC review. The major area in which expenditures were lower than had been hoped for was in the field of defense budget outlays for procurement of major matériel.

Major matériel expenditures did, nevertheless, rise almost $900 million above fiscal 1951 levels, accounting for 35% of the total increase in defense budgets. In the case of France, budgetary restrictions made it necessary for the U.S. to take over (through the offshore procurement device) the financing of a substantial number of matériel procurement contracts which had previously been entered into by the French Government. As the fiscal year closed the French were making a strong plea to the U.S. for further budgetary relief of this nature. The fact that funds available during fiscal 1953 are not adequate to meet the full French request will mean some further curtailment of their defense production plans in the future.

The U.K. recently took a governmental decision to stretch out the timing of its NATO defense build-up. While fiscal 1952 matériel expenditures were not appreciably affected, defense production

levels in fiscal 1953 will have to be decreased unless off-shore procurement financing can be provided. As to Italy, the Government has shown continuing reluctance to increase the overall level of defense expenditures, and has particularly been unwilling to accede to U.S. proposals that expenditures for major matériel procurement be substantially increased.

Outside the field of major matériel procurement, it is difficult to evaluate to what degree limitations in defense expenditures have been a factor in delaying the build-up of forces. It appears clear that in certain cases increased defense budgets might have permitted faster progress to have been made in raising and training forces.

In connection with the Lisbon conference, each country adopted a revised defense expenditure plan calculated to support the agreed force build-up. These defense budget plans were stated in response to suggestions emanating from the TCC review as to desirable levels of defense expenditures for each country. The fact that neither the expenditure levels originally suggested by TCC nor those eventually adopted by the countries have been reviewed by NATO or by the U.S. Government to determine their adequacy to support the Lisbon goals, makes it difficult to establish any meaningful bench-marks against which to measure country defense expenditures. However, since both the TCC Executive Bureau "desirable levels" and the individual defense expenditure plans of the NATO countries have been frequently referred to in the U.S. Government's appraisals of NATO progress, the following table is presented subject to the major reservations indicated above.

DEFENSE EXPENDITURES OF EUROPEAN NATO COUNTRIES

(in $ Millions)

	Fiscal 1951 (Actual)	Fiscal 1952 (MSA estimate)	Country plans adopted in connection with Lisbon decisions (Replies to TCC)	TCC Executive Bureau "desirable levels"
Belgium–Luxembourg	200	375	389	530
Denmark	56	90	97	123
France	2,325	3,200	3,271	3,271
Italy	641	820	811	920
Netherlands	228	320	395	395
Norway	67	101	112	112

DEFENSE EXPENDITURES OF EUROPEAN NATO COUNTRIES—Continued

(in $ Millions)

	Fiscal 1951 (Actual)	Fiscal 1952 (MSA estimate)	Country plans adopted in connection with Lisbon decisions (Replies to TCC)	TCC Executive Bureau "desirable levels"
Portugal	50	58	58	58
United Kingdom	2,665	3,865	4,007	4,007
Total	6,232	8,829	9,140	9,416

a. Defense Production. In general, the activities of defense production in the NATO areas, up to June 30, proceeded at a less rapid pace than had been estimated as possible during the course of the TCC exercise. To some extent, no doubt, shortfalls were the result of administrative red-tape, of the difficulties encountered in conversion and tooling up, and of technical bottlenecks arising from shortages of machine tools, manpower, and critical materials. In its major outlines, however, the failure of European defense production to reach the levels that had been hoped for by NATO and by the U.S. Government was attributable to two main factors: (1) failure of the European governments to provide in their defense budgets adequate financing for major matériel procurement; and (2) delay recognition, by the U.S. Government and by NATO, of the crucial contribution that could be made to the collective effort by large-scale off-shore procurement by the U.S.

Both in France and Italy, "politico-economic" considerations resulted in major delays in government placement of firm defense contracts, and in substantial downward adjustments in the originally hoped-for programs. These two countries together received about two-thirds of the total of $450 million "regular" off-shore procurement contracts placed by the U.S. in Europe during fiscal 1952. In addition French contracts for matériel in the amount of about $180 million were taken on under the so-called "Lisbon commitment" type of off-shore procurement. The fact that the regular off-shore procurement contracts were not placed in any volume until the last quarter of the fiscal year, together with inadequate budgetary provisions for major matériel procurement, resulted in a

marked under-utilization of defense production capacity in these two countries during fiscal 1952.

In the U.K., financial stringencies have not so far played such a major role as in France and Italy in accounting for lagging defense production. Tooling up delays, and shortages of manpower, critical materials, and machine tools, all of which had to be diverted from industries turning out peacetime goods for export, are seen as the major reasons for the shortfalls experienced to date. The "stretch-out" for the balance of the program is, however, prompted basically by financial considerations, both as regards budgetary outlays and as regards protecting from further depletion Britain's hard currency reserves. That a certain amount of physical capacity is available, given the existence of financial underwriting—and particularly, given the promise of dollar payments to compensate for the loss of foreign exchange when capacity is shifted from production for export—is evidenced by the fact that the U.S. has recently been able to place off-shore procurement contracts in the amount of $65 million for tanks, ammunition, and electronic equipment.

Now that the off-shore procurement program is getting under way on a large scale, the U.S. and the European NATO countries are faced with major policy decisions relating to the establishment of a rational pattern of European production. Among the many factors which must be considered are: (1) comparative cost of U.S. and European output, (2) need to fill gaps in material availability caused by U.S. production shortfalls, (3) strategic necessity of having a nearby source of supply for expendable items such as ammunition and spare parts, and (4) long-range European production needs for maintenance of military equipment.

The problem of developing European production of ammunition is one of the most pressing at this time. Also in an advanced stage of planning and negotiation is a substantial program for the production of fighter aircraft. Combat and transport vehicles, electronics, and smaller naval craft are among the other important fields where production is either planned or is already activated for off-shore procurement.

[Here follows Section III, "Austria, Yugoslavia and Spain".]

IV. NEAR EAST AND AFRICA, INCLUDING GREECE AND TURKEY

1. *Internal and External Security.* With the notable exception of Egypt and Iran, the governments of countries receiving U.S. assistance in the Near East and Africa displayed a considerable degree of stability during fiscal year 1952—a stability which is the more noteworthy because of the widespread tensions in the area. In the face of a heightened nationalism throughout many of these countries, which the Communists have made every effort to exploit, the

orientation of their governments remained anti-Communist and friendly to the West.

No state in the area appeared to offer any serious threat to the immediate security of any other state at the end of June 1952. Although Iraq still refused to recognize Syria's new military government, the danger of overt interference has subsided. The smouldering threat of a "second round" of Arab attack on Israel seems to have lost its force as it has become apparent that no conceivable coalition of Arab states could defeat the Israeli forces. The only serious possibility of danger from external sources remained that of the U.S.S.R.

Turkey continued to be one of the strongest and most stable governments in the area, and Greece demonstrated some evidence of progress toward political stability. In neither country is Communism considered to be a serious threat: Communism has been embraced by less than 1/10 of 1% of the population in Turkey. Recent elections in Greece showed less than 10% of the votes cast for the extreme left-wing parties. In these elections, the extreme left-wing, considered to be covertly Communist controlled, failed to increase its strength over the 1950 returns. There continues to be evidence of Communist activity in moderate left-wing groups and labor unions as well as in distressed tobacco areas in Thrace and Macedonia.

The long standing distrust which has separated the Greeks, Turks and Yugoslavs has subsided. Greece and Turkey, both before and since their admission to NATO, have enjoyed increasingly friendly relations, and the two countries have agreed to a considerable exchange of military information. Both have made efforts to improve generally their relations with Yugoslavia. Yugoslav military leaders have indicated a willingness to engage in military staff talks with Greece and Turkey. It is hoped that such a move would eventually lead to coordinated defense efforts. Greece is now considering revival of a prewar arrangement under which an area in the Port of Salonika is reserved as a free port for Yugoslav use.

Internal security threats have been held in check in most countries. The glaring exceptions are, of course, Iran and Egypt. It is still too early to predict the course to be followed by Premier Mossadeq, who now has virtually unlimited power in Iran, or by Egypt's military coup regime headed by General Naguib. There is nothing to indicate any tendency on the part of either leader to look to the East, although in Iran there is some evidence that a working agreement between the Tudeh (Communist) Party and some extreme elements of the National Front existed during the anti-Qavam riots. It is possible that the Tudeh Party in Iran may

be the ultimate victor if Mossadeq's somewhat different concepts of economic planning prove faulty.

In Egypt, however, immediate steps were taken by the authorities to ensure that there would be no recurrence of the January 26 riots and burning of Cairo. The drive against the already outlawed Communist Party has been intensified; the Communist Party in Egypt, unlike the Tudeh Party in Iran, is badly organized and lacking in indigenous leadership. Recent reforms in the economic situation and those contemplated in land distribution will probably further decrease strength of the Communists and will certainly dilute the effect of their propaganda.

Assassinations of Jordan's Abdullah and Pakistan's Liaquat Ali Khan removed strongly pro-Western leaders and for a time threatened internal security in the two countries. New leaders lack the ability of their predecessors, but have maintained their Western affiliations.

Following Colonel Shishikli's military coup of November 1951, Syria appears to have the most stable government in its seven year history as an independent republic. Although its leaders are in many ways nearer to a pro-Western attitude than other Arab countries, they still have not concluded negotiations for a Point 4 general agreement, for IBRD loans, or for Arab refugee resettlement projects.

2. *Attitude Toward Collective Defense.* Of the 14 countries in the Near East and African area, only two—Greece and Turkey—are participating in an effective collective defense arrangement. Both are strong supporters of the principle of collective defense and have cooperated fully with the United Nations in its efforts to stop Communist aggression. Both provided combat troops in Korea, with full popular support. Both have acceded to the North Atlantic Treaty and have thus become full-fledged members of NATO.

The only other collective defensive arrangement in the area is the Arab League Collective Security Pact, to which Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria and Yemen are all signatories. This "defense arrangement" of Arab states is less likely to produce actual security than to develop a bargaining position for Western defense proposals. Significantly, three of the first four countries to ratify the pact (Egypt, Iraq, Syria) have already expressed considerable interest in joining the proposed Middle East Defense Organization (MEDO).[13] Lebanon has unofficially indicated its willingness to participate in MEDO after one of the other Arab League states has broken the way. That the principal interest of

[13] For documentation on the abortive efforts to create a Middle East Defense Organization, see volume IX.

Arab leaders is in the chance to acquire military training and equipment in no way detracts from the importance of their interest, which represents a sharp change in the traditional neutralism of the area.

Israel, which has not been approached with respect to MEDO, might find it difficult to enter a collective defense alliance with the Arab states, but has unofficially offered to "cooperate" with them in such an arrangement.

3. *Military Assistance and Defense Support to Greece, Turkey and Iran.*

a. Greece

SUMMARY OF MDAP PROGRAMS, FY 1950–52

(In millions of dollars)

	Program FY 50-52	Shipments as of June 30, 1952	Percent Shipped
Army	202.2	82.5	40.8
Navy	70.2	60.3	85.9
Air Force	116.2	23.8	20.4
Total	388.6	166.6	42.9

Greece was just recently admitted to NATO. Lisbon Force Goals were not established for 1952; so program objectives are in terms of JCS-approved forces. From the manpower point of view, the Greek Armed Forces are capable of raising and maintaining the forces approved by the JCS.

The size of the Greek National Army meets the approved JCS force goals with the exception of a shortfall of 2 light infantry regiments. There has been no change in the size of the Greek Army. The arrival of arms and equipment, however, have greatly increased its effectiveness. The Greek Army as a whole is considered well led, satisfactorily trained and, except for some matériel deficiencies, prepared to carry out its wartime mission.

The Greek Navy is organized in accordance with the approved JCS force goals. The training vessels and equipment received in the past year have increased the effectiveness of the Greek Navy by approximately 30%.

The strength of the Greek Air Force has remained unchanged. Aircraft and supporting equipment to complete the build-up of the air force were programmed in the MDAP FY 1953 budget. This

force is not considered sufficient adequately to defend Greece from the air, nor is it large enough to furnish sufficient tactical air support to exploit the potential of the large Greek National Army. However, it is the maximum force to which the Royal Hellenic Air Force is considered capable of expanding by December 1953.

Since the advent of the Mutual Security Program, the Greek defense effort has remained at the relatively high level established shortly after the outbreak of the Korean war. The maintenance of this effort has required defense expenditures of about $185 to $195 million per annum, or about 9% of the gross national product and about 40% of total national budget expenditures. This level of expenditures has provided for (a) the maintenance of about ten divisions of land forces, support troops, and a smaller complement of sea and air forces; (b) the requirements of the armed forces for food, clothing, medical supplies, fuels, and other quartermaster items, as well as the creation of reserves of similar items to meet additional requirements related to the mobilization of trained reserves numbering some 300,000 men; and (c) the construction of military highways, airfields, port facilities, telecommunications, and other essential military installations.

The present size of the Greek Armed Forces appears adequate to enable Greece to fulfill its task within NATO and no significant expansion in the Greek defense effort is now contemplated. The goal of the Greek defense effort is qualitative, calling for the continued improvement of the military effectiveness of the existing forces. In fact, the Greek Government has expressed its intention of reducing military expenditures by as much as 10% but has stated that this reduction will be effected without impairing either the size or effectiveness of the defense establishment.

b. Turkey

SUMMARY OF MDAP PROGRAMS, FY 1950–52

(In millions of dollars)

	Program FY 50–52	Shipments as of June 30, 1952	Percent Shipped
Army	187.5	79.6	42.5
Navy	81.4	34.7	42.6
Air Force	173.6	24.3	14.0
Total	442.5	138.6	31.3

In view of Turkey's recent admission to NATO, no Lisbon Force Goals were established for Turkey in 1952. However, Turkey's Armed Forces already exceed JCS goals by about 19%. Present plans do not call for an increase in numerical strength over the present 386,000. Nor will the number of existing units be expanded. Continued modernization, however, will proceed during and after 1952 through programmed shipments of transport equipment, artillery, etc., for the Army, modern submarines for the Navy, and the transition of the Air Force into jets. The main build-up will be in the increased efficiency of existing forces in the field of training and in the arrival of programmed equipment.

The Turkish Army is trained and organized to defend Turkey from aggression by nations which border on Turkey. Therefore, in evaluating the combat potential of the Turkish Army, it is not possible to compare the Turkish divisions and brigades with similar units of the U.S. Army fully prepared for overseas movement. It is felt, nevertheless, that the Turkish organizations are sound and that they can successfully defend the areas to which they have been assigned against the types of units which may be employed against them by Russia and/or Bulgaria, unless they are overwhelmingly out-numbered. The major matériel deficiencies of the Turkish Army consist chiefly of: (a) unit equipment, (b) spare parts and replacements, including annual operating requirements and combat reserves, and (c) training ammunition and combat reserve ammunition. Unit equipment deficiencies include artillery, engineering, motor transport, signal, mechanized, and miscellaneous small arms. FY 1952 and the proposed FY 1953 programs cover these matériel deficiencies.

In the Turkish Navy the major equipment deficiencies are vessels (new replacements and modernization), vessel equipment, electronics equipment, ordnance equipment and supplies, rockets, ammunition, and engineering equipment and supplies. There are also inadequate naval bases and logistic bases, anti-submarine and anti-torpedo nets, shipyards, and underground POL storage facilities. All these deficiencies are due for correction in the FY 1953 Aid Program and Turkish plans.

The major deficiency of the Turkish Air Force is that it is not yet equipped with modern aircraft to act as a real deterrent to an aggressor. Modern jet fighter-bomber aircraft are programmed for the planned forces of the Turkish Air Force to the extent that they can be efficiently utilized. The delivery of this type aircraft has just started and will continue through FY 1953. If all programmed equipment is approved and delivered, it will complete the initial equipping of a Turkish Air Force of 15 squadrons.

The main task of the *Gendarmérie*—an organized, semi-military organization of approximately 40,000 officers and men—is to assist the police in the country areas and to reinforce the Army in time of war. It is trained along military lines under the Turkish General Staff. The Ministry of National Defense provides administration, supply and part of the pay. The enlisted personnel are conscriptees as in the other armed forces. However the *Gendarmérie* operates in its police function under the Department of Interior.

There is no system of Organized Reserve, National Guard or similar civilian training organization within the Turkish Armed Forces. Neither officers nor enlisted men receive additional military training after they have completed their required active duty tour of military service. Upon discharge, officers and men are given mobilization assignments. The Turkish Armed Forces reserve system is wholly dependent upon each individual's ability to retain the knowledge acquired during his required active duty tour of service.

Turkey lacks manufacturing facilities to sustain herself independently in a major conflict. Food, clothing, and most small-arms ammunition can be provided, but major armaments, vehicles, aircraft, spare parts, and POL supplies must be imported. POL storage facilities are marginal, and must be supplemented if extended conflict is anticipated and before any POL support could be provided to allies who may operate in Turkey.

MDAP has exceeded the scope of the originally assigned mission in that the Turkish Armed Forces are being developed beyond Turkey's economic ability to support them without outside help, yet not to the point where, unaided, they can deter the Soviets from successful all-out aggression. In regard to the economic capacity of the Turks to maintain present forces, unless there is great improvement in the Turkish economic situation, continued aid will be necessary for operational and maintenance purposes over and above that which Turkey's 500 million lira annual budget will support.

c. Iran

SUMMARY OF MDAP PROGRAM, FY 1950–52

(In millions of dollars)

	Program FY 50-52	Shipments as of June 30, 1952	Percent Shipped
Army	61.0	14.5	23.8
Navy	—	—	—
Air Force	5.6	1.1	19.8
Total	66.6	15.6	23.4

The development of a first-class fighting force in Iran with a reasonable degree of self-sufficiency is a long-term project requiring basic reform. One of the most serious deficiencies in the Iranian forces is the poor quality of its leadership. Corruption and lack of integrity are widespread and contribute significantly to the inefficiency of the Army. Much procrastination, little supervision and casual compliance with orders are significant characteristics. Better command techniques may be obtained as younger, better trained officers reach key positions. However, there is little delegation of any important authority, probably because of danger of a coup.

The strength of the Army—132,500—is 5% above JCS approved force goals. However, this strength is spread over two infantry divisions and 4 infantry brigades in addition to JCS force goals. Equipment is generally adequate considering the state of training and ability to absorb. Present level of equipment is approximately 35% of planned minimum. Deficiencies include inadequate leadership, planning, training and logistical support. It is estimated that the Army could be logistically supported in combat for only two weeks. The Army is considered to be sufficiently effective to maintain internal order.

The Navy strength is within 5% of JCS approved force goals. Equipment is generally adequate except for repair facilities. The Iranian Navy has virtually no combat capabilities in view of obsolescent equipment and limited size of naval forces. It has limited capabilities for assistance in internal security operations.

The Air Force is within 1% of approved JCS force strength but is not organized in accordance with JCS force goals. The level of equipment is generally adequate except for training aircraft. The Iranian Air Force has no combat capabilities. It suffers from the

overall deficiency of the Army, aggravated by the technical requirements of aviation.

The Iranian *Gendarmérie* is not part of the peacetime military establishment. Dispersed in small squad posts and functioning in non-municipal and non-tribal areas, it lacks communications and transportation. It has no capacity other than day-to-day police functions, little flexibility and practically no reserves. Morale is somewhat better than in the Army because the *Gendarmérie* has no conscripts and there is relatively better pay and opportunity for graft.

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V. FAR EAST AND SOUTH ASIA

1. *Internal and External Security.* During FY 1952 the Nationalist Government of China and the Government of the Philippines were the most stable in the entire Far Eastern area. There was no internal challenge in Formosa to either Chiang Kai-shek or the Kuomintang. The strength of the present Philippine Government was somewhat impaired by the victory of the opposition party in the 1951 elections. But the cause of good government as well as the stability of the government was considerably furthered because the elections were on the whole conducted honestly and with a minimum of violence, in contrast to previous elections.

The coalition Government of Burma achieved a resounding victory by being reelected by a substantial margin of the popular vote. This clear mandate from the people strengthened the hand of the government and encouraged it to form a more effective cabinet with a more positive attitude toward solving the problems confronting it. It is significant to point out that the government's endorsement of American economic assistance was an important issue in the elections.

The Associated States of Indochina made significant progress in assuming the responsibilities of self-government within the past year. The government which had been in power for the past two years in Viet-Nam was replaced by a new and stronger government in June 1952. A major part in this change was played by Emperor Bao Dai and is believed to reflect an increasing determination on his part to stabilize the government and improve its effectiveness.

Thailand has had a recent history of governmental change by coup rather than by parliamentary process. Two such coups were attempted in the past year, both of which were engineered within the government itself to consolidate the power of the military leaders. This seeming governmental instability, coupled with the high-handedness and corruption of the governing group, has been a matter of serious concern to the United States Government. There

is no reason to believe, however, that the present control of the governing group will be disturbed in the near future.

In Indonesia the government which had given assurances to the United States acceptable under Section 511(a) of the Mutual Security Act was ousted in February, 1952 and was succeeded, after a difficult formation period, by a government which was an uneasy coalition. This government has not yet, after a number of months, been accorded a clear vote of confidence by the parliament. Instead, the parliament has voted the government an "opportunity to work."

Food shortages and economic difficulties continued to offer the greatest danger to the internal security of existing governments in India and Pakistan, where they are exploited by the Communists. Communist strength was significantly disclosed in India, where Communist-supported candidates drew over 6,000,000 votes in the recent general elections, although the party itself claimed only 30,000 dues-paying members prior to the election. Twenty-seven Communists and Communist sympathizers were elected to the House of the People (total seats—497). The Communists won large blocs of seats in several of the state assemblies. While not by themselves sufficiently strong to be able to form a government in any state, the Communists emerged from the general election with the largest number of elected representatives in opposition to the Congress Party, although the Socialists actually polled twice as many popular votes. The Congress Party drew only 45% of the total votes while winning 74% of the seats in the House of the People. It is possible that the disclosure of Communist Party strength within India has had some effect on the Government's attitude toward international communism. While India is still unwilling to become directly involved in the cold war or openly to take the part of the West, the Indian Government has shown signs of apprehension regarding the intentions of Red China, and has recently taken steps to strengthen its defenses along the Chinese and Tibetan borders.

In Nepal the quarrels of the Congress Party leaders and a series of minor outbreaks of violence kept the country in a turmoil which was exploited by the Communists.

Turning from the question of governmental stability in terms of constitutional change to the question of overthrow by force, most governments in the area were in the shadow of serious threats throughout most of the period. In Indochina active warfare was waged during the entire year to regain and consolidate control in areas which had been taken over by the Viet Minh. With French financial subsidies and military effort, coupled with U.S. arms aid, the governments of the Associated States were able to retain their control over large portions of the area. The Vietnamese Govern-

ment has also been increasingly successful in maintaining and extending its political control. Although there has been no overt invasion from Communist China, the military capability of the opposing Viet Minh forces has been increased significantly through arms assistance and technical support and advice from the Chinese Communists.

Burma has long been the scene of a number of concurrent insurrections. The outstanding effect of the government's victory in the elections was the adoption of a more aggressive attitude toward the insurgents, including considerably more effective efforts against the Communist insurgents, with a corresponding decrease in the attention given to the non-Communist Karen rebels. The government's forces have prevented the insurgents from improving their position and have succeeded in driving them from some parts of the country which they held for several years.

Indonesia has been in little danger of external invasion, but it has been the scene of widespread dissident action, particularly by a fanatic Muslim group operating in Central and West Java. It is estimated that there are a total of approximately 128,000 dissidents in the country, of whom 70,000 may be armed. The Communist Hukbalahap movement in the Philippines was broken during the past year and is no longer considered to be a major threat to the stability of the government. While Thailand has a large number of Chinese residents, it is nevertheless relatively free from any threat of organized Communist dissidents. Total Communist strength is not believed to exceed 20,000 members and sympathizers.

In considering the security of governments in this area there is always, of course, the ever-present twin danger faced by the Nationalist Government of China on Formosa, in the form of the threat of an all-out military assault by the Chinese Communists from the mainland and the economic difficulties arising from the maintenance of disproportionately large armed forces needed to meet an invasion from the mainland.

Pakistan and India appear no nearer to a solution of the long-festering Kashmir problem; and Afghanistan continues the bitter quarrel with Pakistan over the "Pushtoonistan" issue.

2. *Economic Aid and Defense Support.* Programs of general economic aid, including the financing of substantial consumer and capital goods imports, were carried on in the following countries:

Country	Approved Programs
Nationalist China (Formosa)	$81.0 million
Indo-China	24.7 million
Philippines	32.0 million

Country	Approved Programs
Thailand	7.0 million
Total	$144.7 million

The objectives and general nature of programs in the three major countries are indicated in the Part I, "Summary Evaluation".

3. *Military Assistance to Indochina and Formosa*

a. Indochina

SUMMARY OF MDAP PROGRAMS, FY 1950–52‡

(In millions of dollars)

	Program FY 50–52	Shipments as of June 30, 1952	Percent Shipped
Army	469.6	144.5	31
Navy	89.1	66.7	74
Air Force	146.2	25.0	17
Total	704.9	236.2	33

‡Excludes "Lisbon plan" procurement, programmed for $129.2 million (practically all for Army), on which shipments were zero as of June 30, 1952. [Footnote in the source text.]

PRESENT ARMY STRENGTHS IN RELATION TO JCS GOALS

Force	Men, % of Goal	Units Over JCS Goal	Units Short of JCS Goal
French	100%	1 RCT	1 Inf. Div. (12 Bns.)
		1 Inf. Regt., Armored	
		1 Inf. Regt. (Separate)	
Vietnamese	50%	4 Inf. Div. (9 Bns.)	7 Inf. Div. (12 Bns.)
			3 Inf. Bns. (Separate)
			1 Airborne Battalion
Laotian	50%	1 Inf. Company (Separate)	4 Inf. Bns. (Separate)
			2½ Airborne Bns.

PRESENT ARMY STRENGTHS IN RELATION TO JCS GOALS—Continued

Force	Men, % of Goal	Units Over JCS Goal	Units Short of JCS Goal
Cambodian	50%	None	6 Inf. Bns. (Separate) 1½ Airborne Bns.
Total	86%	(395,803)	

Combat effectiveness of French units in comparison to U. S. wartime units ranges from 40% up to 150%. Vietnamese units compare to U. S. forces in the range of 30% up to approximately 100%. As forces are undergoing a profound transition in modernizing their armies, the bulk of the native officers and enlisted men do not presently possess the aggressiveness, initiative and technical skill of U. S. wartime units. The FY 50–52 aid programs involve equipment to supplement the French equipment for 3 French Divisions, provide the majority of the equipment for 6 Vietnamese Divisions, and provide the equipment for the Laotian and Cambodian battalions.

Naval forces are currently at JCS force goals, with the following exceptions:

Short 8 LSSL (Land ship supp. large)
Over 3 LSIL (Land ship Inf. large)
Over 6 CG Patrol Craft (40 foot)
Vessels 91% of JCS force bases
Personnel 71% of JCS force bases
Naval aircraft 100% of JCS force bases

Combat effectiveness of French naval forces varies from 40 to 100% in comparison to U. S. Navy. For instance, effectiveness is 40% for ASW where there is little or no occasion for use, but 100% in river warfare operations where there is daily combat or employment. FY 50–51 MDA programs provide requirements to meet JCS force goals but subsequent programs are relied upon to provide replacement craft and equipment.

The Air Force is currently at JCS force goals, with the following exceptions:

a. Short 1 fighter-interceptor squad. (25 operating aircraft)
b. Short ⅓ Recon. Squad. (16 operating aircraft per squadron)
c. Possess 2 Transp. Squads. Light in lieu of 2 Transp. Squads. Medium specified in JCS goals.
d. Have no fighter bomber attrition aircraft and are 1 plane short in operating aircraft.

Combat effectiveness is rated at 74%. Lack of maintenance personnel and pilots lowers effectiveness of French Air Force.

b. Formosa

SUMMARY OF MDAP PROGRAMS, FY 1950–52

(In millions of dollars)

	Program FY 1950–52	Shipments as of June 30, 1952	Percent Shipped
Army	139.3	41.6	30
Navy	11.4	5.0	44
Air Force	119.7	1.2	1
Total	270.4	47.8	18

On Formosa all ground force units are now in being but are currently being reorganized into a lesser number of divisions to be in accord with the JCS force goals. The reorganization process was 25% complete by June 30. Over-all combat effectiveness of ground forces is 20%. Ground force units will, upon completion of delivery of FY 1950–52 programs, be approximately 50% supplied with equipment required by new tables of organization and equipment.

Naval forces are now at the level prescribed by the JCS. Combat effectiveness of the Navy is 22%; Marines, 25%. The Navy will be 100% equipped, upon completion of FY 1950–52 deliveries, but there will be a continuing requirement for replacement spare parts and materials for overhaul of vessels.

The Air Force is at the numerical level prescribed by the JCS with the exception of an all-weather fighter squadron. Combat effectiveness is 18% for combat aircraft units, 65% for transport aircraft units. The process of conversion of conventional fighter aircraft squadrons to jet fighter bombers squadrons will be 50% complete when FY 1950–52 programs have been delivered. The Nationalist Chinese Government recently expressed concern over delays in delivery of MDAP aircraft, on grounds that a large number of trained pilots was available without planes to fly.

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VI. AMERICAN REPUBLICS

1. *Internal and International Political Developments.* Most of the Latin American governments appear to be relatively secure at the conclusion of the period under review. Political stability and con-

tinuity of governments are at least superficially no worse than they have generally been in the past. Nevertheless, the past year has witnessed unconstitutional seizures of governmental power in Cuba and Bolivia. The ability of the constitutionally-elected governments in Chile and Ecuador to maintain themselves in control hung at times in precarious balance. In other countries, such as Colombia and Venezuela, those in control were preoccupied with maintaining their power against actual or threatened violence. In still other countries stability was the product of one-man or one-party rule which tolerated no opposition.

Aside from the influence of Communism, there were no external threats to political stability within the Hemisphere. Among the nations of Latin America, none seriously threatened the security of any other.

Internal threats to political stability were apparent in several countries due primarily to the unpopularity of governments with important groups within their countries, economic difficulties, or a combination of the two. The dissatisfaction of important elements was obvious in Argentina, Colombia, Cuba and Guatemala. Economic difficulties were the most important factor in Bolivia, Paraguay and Panama, and a strong contributory factor in Argentina. In Brazil, the development of a strongly nationalist, if not Communist-minded, group in the armed forces was brought under control through effective action by the dominant faction of the military leadership.

The repressive Peron administration maintained control of Argentina despite an abortive revolt by a few military leaders. The demise of politically powerful Eva Peron creates yet another crisis for the regime. In Colombia, government control was firm only in urban centers. Violence and repressive measures were frequent as the Conservative government tried to keep control in the face of Liberal opposition and widespread civil disorder throughout the provinces. In Cuba, the constitutionally-elected government of Prio Socarras was overthrown by a military coup. The possibility of political disturbances in Guatemala was increased by the enactment of a drastic land reform law which continues the government's attack on the interests of the traditional ruling class.

Nationalist-leftist elements in Bolivia capitalized on difficult economic conditions to overthrow the government after a bloody revolution. Continuing hard times and moves of the new government toward nationalization of the important tin industry create doubt that the revolutionary government will be able to maintain itself. In Paraguay, seemingly insoluble economic problems which have resulted in near bankruptcy and in severe food shortages, would appear to endanger stability where it has been traditional. In

Panama, growing unemployment combined with home-grown and imported subversive influences to create an atmosphere of political tension. National elections were conducted with a minimum of disturbance, but the bases for unrest were by no means eliminated.

Venezuela's military *junta* remained in power, though without progress toward winning the loyalty of the majority of the people. National elections in Mexico were held early in July 1952 with virtually no disturbance, noteworthy evidence of progress toward political maturity. The recent election in Ecuador was unexpectedly peaceful.

In summary, Latin America is passing through a period of far-reaching political, social, and economic adjustment, which imposes upon most of the governments a preoccupation with domestic problems. Furthermore, nationalist and Communist groups seize every opportunity to provoke dissention in existing political institutions and to undermine, by propaganda and violent demonstrations, the foundations of genuine democratic development. These groups are also seizing increasingly upon the wave of anti-colonialism which is rising throughout the rest of the world, by associating the underdevelopment of the area with the issue of colonialism and the so-called economic imperialism of the United States.

Communist capabilities in Latin America have been enhanced by growing stresses and strains in the life of these countries. Even where Communist organization is relatively strong, however, its operations succeed only to the extent that local favoring factors exist and strategy is adapted to exploit these factors. Preferred targets of Communist penetration include organized and unorganized labor, and certain white-collar and professional groups. Extreme nationalists have been ready to make common cause with the Communists in front groups that oppose cooperation with the United States on the grounds of "infringement of sovereignty". The Communist target groups, largely urban, have grown in size and influence with the shift of population from rural to urban areas.

Tensions are greatest in Argentina, Bolivia, and Guatemala, where socially radical doctrine plays a leading part in the nationalist program and the nationalists have teamed with mass elements in a potent political force. To a lesser extent Chile, Ecuador, Venezuela, Panama and El Salvador are experiencing similar stresses and strains. Communist influence still persists in Mexico, although the new order brought about by revolution has matured, the tensions have subsided somewhat and new vested interests are a strong force for stability.

Communist capabilities are presently limited in those countries that are still living in the traditional pattern of Latin American society. Extremist forces have shown considerable strength in Brazil,

where nationalists, even including some in the military, have worked with Communists. They are, however, countered by the power of propertied groups and by Brazil's close association with the United States. In other countries having a traditional or moderate political order, nationalists have tended to ally with propertied interests or the military and have steered clear of Communist association.

Communist party membership, which reached a 1947 peak of one-third of a million in all Latin America, has declined to about 200,000. The important Brazilian, Chilean, and Cuban parties, which had made a strong showing in 1944–47 national elections, have lost more than half their membership strength, accounting for most of the decline in party membership. Official proscription of the parties in many countries reduced vote totals of Communist-supported candidates to a handful from the million registered in 1944–47 national elections in 9 republics. Communist participation in national politics is now significant only in Guatemala and, to a lesser extent, in Chile. The position of the Communists in these countries, while impressive, results only to a limited degree from the strength of national Communist organization. It derives in part from Communist influence in the labor movement which, in Guatemala at least, has no effective political counterbalance, and in part from Communist alignment with proponents of civil liberties or extreme nationalism.

2. *Governmental Policies Relating to Defense.* Of the Latin American countries included, or proposed for inclusion in the Mutual Security Program only 6—Brazil, Dominican Republic, Chile, Ecuador, Colombia and Peru—have legislation requiring a period of compulsory military service. In Uruguay recruitment is voluntary. A Cuban law enacted during World War II, making military service compulsory, while still on the statutes, is no longer enforced, and registration is no longer required. Three (Brazil, Dominican Republic and Peru) have budgeted expenditures for Defense in excess of one-fifth of their total national budgets. Three (Chile, Colombia and Ecuador) have budgeted defense expenditures in excess of 15% of their national budgets. Three (Cuba, Mexico and Uruguay) have appropriated over 10% of their total national budgets for defense expenditures.

In addition to the normal expenses for the maintenance of defense establishment, these defense expenditures, for the most part, have been applied toward the purchase of spare parts and maintenance equipment for matériel previously furnished these countries under the Surplus Property Act; [14] the purchase of additional

[14] Reference is to the Surplus Property Act of 1944 (Public Law 457); for text, see 58 Stat. (pt. 1) 765.

equipment under Section 408 (e) of the Mutual Defense Assistance Act [15] or in the commercial market in the United States and, in the cases of Brazil and Peru, toward the start of an extensive ship construction program.

1952 BUDGETED EXPENDITURES FOR DEFENSE BY CERTAIN LATIN AMERICAN COUNTRIES

(Millions of U.S. dollars)

Country	Total Expenditures	Expenditures for Defense	Defense Expend. as Percentage of Total Expend.
Brazil	1,374.7	445.0	32%
Cuba	299.8	42.0	14%
Chile	937.8	147.1	16%
Colombia	324.4	54.0	17%
Ecuador	38.3	6.8	18%
Peru	135.0	31.1	23%
Uruguay	240.1	24.6	10%
Dominican Republic	82.8	23.1	28%
Mexico	462.3	52.3	11%

All of the American republics have signed, and all but Guatemala have ratified the Inter-American Treaty of Reciprocal Assistance.[16] All are members of the Organization of American States and the United Nations. The policy of support of collective defense was reaffirmed at the Washington Meeting of Foreign Ministers in 1951.[17] While the majority of the Latin American governments thus favor collective defense in principle, the degree of active and affirmative support varies widely. Attitudes and actions are affected by such factors as preoccupation with pressing local problems; the ability of nationalist and Communist political and propaganda activities to influence governmental decisions; resentment that almost all of U.S. assistance in the post-war years has been given to other areas; and the prevalent assumption that the United States will continue to assume the burden of military defense of

[15] Mutual Defense Assistance Act of 1949 (Public Law 329), approved Oct. 6, 1949; for text, see 63 Stat. 715.

[16] Opened for signature at Rio de Janeiro, Sept. 2, 1947, and entered into force for the United States, Dec. 3, 1948; for text, see 62 Stat. (pt. 2) 1681.

[17] Reference is to the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, held at Washington, Mar. 26–Apr. 7, 1951; for documentation concerning the meeting, see *Foreign Relations*, 1951, vol. II, pp. 925 ff.

the Western Hemisphere. Underlying these factors, however, is the fact that existing military establishments are inadequately trained and equipped to engage in modern collective military operations without additional U.S. assistance.

The military grant-aid negotiations carried on in 1952 were predicated on the assumption that willingness to participate in a collective defense arrangement was primarily limited by inability to achieve adequate material preparation without U.S. aid. The essential immediate purpose of United States assistance is to provide the missing component—i.e., the necessary training and equipment to enable these countries to participate in planned collective action in the event of war or emergency. It is noteworthy, therefore, that of the 8 governments (Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Uruguay) with which negotiations were initiated, the agreements required by policy and legislation have been signed with 7 and are in full effect with 5. Ratification of the Brazilian and Uruguayan agreements remains to be completed. No difficulty is expected in the case of Brazil, and the chances are not unfavorable in Uruguay. The Mexican talks, while unproductive of an agreement, were concluded without prejudice to possible future resumption. Although Argentina is militarily capable of participating in the regional collective defense program, Peron's policy negates any expectation of Argentine cooperation in any collective military action. No approach has been made to Argentina regarding Mutual Security Program negotiations.

The Dominican Republic has not yet been approached regarding participation in the military grant-aid program. It is expected, on the basis of its general policies and its willingness to negotiate a Guided Missiles Base Agreement, that the Dominican Republic will wish to enter into such a cooperative military arrangement. In general, that Government's support for the principle of collective security has been adequate.

The Venezuelan Government is essentially preoccupied with the problem of defense of its own territory, which has strategic materials and installations of vital importance to hemisphere and free world defense. In these circumstances, and in view of its limited military capabilities, the problem of participation in hemisphere defense for Venezuela is primarily one of its own protection.

The other Latin American countries—Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, and Paraguay—have extremely limited capability for military participation in the hemisphere regional arrangement. With the exception of Guatemala, however, policies of these governments are in most respects thoroughly cooperative, both with the OAS and the UN.

[Here follows Section VII, "UN Programs".]

700.5 MSP/11-2852

Memorandum by the Special Assistant for Regional Programs of the Bureau of Far Eastern Affairs (Parelman) to the Deputy Assistant Secretary of State for Far Eastern Affairs (Johnson) [1]

CONFIDENTIAL WASHINGTON, November 28, 1952.

Subject: Organization for MSA-Type Activities—Preliminary Views

This is in reference to your recent memorandum to the Office Directors requesting their views on recommendations to be made to the incoming administration regarding a more effective organization for MSA-type activities both in the United States and abroad.[2]

The following represents a consensus of various views with respect to the specific questions which you raised and certain others which have come out as a result of the inquiry.

1. The United States Government is clearly committed to the continuance of programs of economic, technical and military assistance to the nations of the free world. The failure in certain circles to recognize the role of these Mutual Security programs as vehicles of foreign policy rather than as ends in themselves has given rise to a confused organizational pattern in both Washington and the field. The Department of State must resume its role of leadership in the formulation of foreign policy and serve as the principal voice of this Government both in Washington and abroad on policy matters arising from or basic to the foreign assistance programs. On the specific question of whether DMS is a good idea and should be continued, the offices are agreed that the concept of DMS stems basically from domestic political considerations in derogation of the role of the State Department and should not be continued.

On the question of how State-Defense-MSA coordination could otherwise be achieved, the offices have made no specific organizational recommendations but have generally indicated, in view of the comparative success which had been achieved in coordination during the earlier State role as principal agency, that an overall

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[1] Drafted by Parelman with copies sent to McConaughy, Bonsal, Young and Flake.

[2] In a memorandum to McConaughy dated Oct. 23, 1952, the Deputy Assistant Secretary of State for Far Eastern Affairs, U. Alexis Johnson, wrote, in part, as follows: "Ed Martin (S/MSA) is working on recommendations to be made for the incoming administration regarding a more effective organization for MSA-type activities both in the United States and abroad." Johnson asked that the appropriate offices in FE submit their recommendations to Parelman. The recommendations of the Offices of Chinese Affairs, Northeast Asian Affairs, and Philippine and Southeast Asian Affairs were submitted to Johnson on Oct. 30, 31, and Nov. 5, 1952, respectively. Copies of the Johnson memorandum of Oct. 23 and the recommendations of the three Offices under reference are all in file 700.5 MSP.

interdepartmental coordinating committee should be re-established, chaired by a Special Assistant to the Secretary of State, with subcommittees functioning on a regular basis for each of the four areas.

2. If DMS should be retained it is desirable and imperative that a much greater role be carved out for the Department in the coordinating of Washington as well as field activities under the Mutual Security Act. The situation cannot be continued where it is necessary for DMS to virtually apologize before Congressional Committees for participation by the Department of State in the presentation and execution of the Mutual Security Programs. Specific recommendations for improving the role of DMS are:

a. DMS should take a more positive role in (i) following progress in the execution of the programs and (ii) insisting on prompt and useful reporting on progress and developments under the programs. (Reporting on military programs has been extremely poor.)

b. The disproportionate concentration on Europe by DMS and the treatment of Far Eastern problems on a crisis or *ad hoc* basis should be changed.

c. An interdepartmental committee sponsored by DMS should be activated to serve as a forum and council to resolve outstanding problems with respect to Far East military, economic and technical assistance programs.

d. DMS should take leadership in directing improved forward planning on annual programming, legislative and financial aspects of foreign aid programs.

3. There is no present source or mechanism which officially assesses progress made under the military and economic programs or presents such data in an understandable manner on a coordinated basis for executive use. Even the extremely limited statistical reports which we formerly received from the Defense Department have now been seriously curtailed to the point where such documents as are received dealing with progress under the programs are more useful for historical archives than as operating documents. This is one of the most serious situations facing the officers whose responsibilities require that they be closely informed on developments under the programs. It is recommended that either DMS or its successor agency develop an efficient system of executive reporting on an overall basis which would forthrightly and expeditiously place progress data in the hands of top officials concerned with the programs.

4. The offices agree on the desirability of eliminating the present split as between MSA and TCA on the major point that there is merely an artificial distinction between the two agencies. The recommendation is made that the economic agencies should be under

the control and direction of the State Department, similar to the TCA setup.

PSA makes the rather new recommendation that the agency handling programs for Southeast Asia should be integrated with the Bureau of Far Eastern Affairs in a manner similar to the organizational lines followed in the field. Thus, "the Chief of the PSA area branch in the Washington agency should be deputy to the Director of the Philippine and Southeast Asia Affairs of the Department of State." It is not very likely that much support would be obtained for this concept of having an "integrated" operational and policy organization. One major criticism probably would be the inevitability of confusion in lines of authority.[3]

5. With respect to the concept of utilizing United Nations agencies[4] wherever possible, there is a consensus of opinion that far greater use could be made of the multilateral agencies. This concept appears to be more of an instinctive reaction than one based on knowledge that the UN agencies are actually capable or equipped to undertake the programs which the United States is carrying out.

6. With respect to organization in the field, and particularly the numbers of Americans abroad, it is the general view that every effort should be made to maintain at the most practicable minimum the number of American citizens employed in aid programs. The offices feel that this Government has suffered embarrassment, unfavorable publicity and considerable confusion from the profusion of personnel sent abroad by temporary organizations. Our representatives in the Far East are reported as being nearly unanimous in their opinion that fewer and better trained personnel would make a more favorable impression and achieve more in helping other nations than is possible in the present "large and sprawling representation".

This is not a new reaction inasmuch as concern has been expressed from time to time about the seemingly large numbers of Americans who are engaged in administering the U.S. aid programs in the various countries of the Far East. While this concern is undoubtedly legitimate in terms of the sensitivity of the political situation in practically all of the countries in the Far East it is not always clear as to whether this concern arises from the simple abstract fact of numbers or whether there have been specific instances where quality has been low and Americans have figured in incidents or situations inimical to U.S. relations with the respective

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[3] A handwritten notation in the margin at this point reads: "I agree. UJ".

[4] A question mark apparently written by Johnson appears in the margin at this point.

countries. Perhaps one of the real problems has been the fact that by and large there has been a concentration of the Americans in the large cities or capital areas with very limited dispersal to outlying areas. This has had the effect of precipitating criticism on both the score of concentration of numbers in the cities and the neglect of areas needing U.S. aid outside of the large cities.

It is recommended that a careful examination be made of how and where adjustments in personnel serving abroad might be made to tighten up the effectiveness of the organizations. In this connection it would appear that a most beneficial step might be made in reducing the present tendencies toward proliferation of programs in most of our countries. It has also been suggested that, where possible, long range, expensive economic projects should be gradually replaced by technical assistance designed to implement the original premise of the President's concept of Point IV wherein our objective was stated to be to "help others to help themselves".

7. Very little if any consideration appears to have been given to the possibility of utilizing non-Americans in the various technical aspects of our STEM programs. It is quite conceivable that we could hire personnel from the Scandinavian countries in the Public Health field, Japanese technicians for developing the extractive resources of Southeast Asia and perhaps even Japanese or Southern Europeans in the agricultural fields. The Japanese rice production methods could be most profitably copied in Southeast Asia.[5]

8. Our economic aid programs generally are in need of greater coordination with the Department of Defense, particularly where they are in support of the defense effort. Appropriate machinery should be established in Washington and refined in the field for a direct and continuing assessment of the contribution which U.S. economic aid should make toward the defense effort. While the role of the Ambassador in this field has been materially advanced under Executive Order 10338[6] insufficient evidence is at hand that the authority is being effectively exercised in the various countries.[7]

9. There are, of course, a variety of other facets which could be the subject of treatment in this memorandum but which might perhaps be touched on in discussions arising out of this paper. While I have drawn to a large extent on the papers prepared by the offices in preparing this memorandum I thought you might find it useful, if time permits, to read the office papers because of the somewhat different emphasis from which each has approached the problem.

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[5] Johnson wrote in the margin at this point: "Probably not possible in U.S. program."

[6] See the editorial note, p. 497.

[7] Johnson wrote in the margin at this point the word "right".

They are attached hereto. Needless to say, this paper was not intended to be more than a preliminary expression of views and, therefore has not involved the canvassing of views outside of the three FE offices.

ECA-MSA Executive Assistant's file, FRC 55 A 79, box 186, "W. Averell Harriman"

The Director of Mutual Security (Harriman) to the President[1]

SECRET [WASHINGTON,] December 12, 1952.

MY DEAR MR. PRESIDENT: During the past few days I have had several talks with Fred Lawton about the proposed Mutual Security Program for the fiscal year 1954. I have given Fred frankly my views about the program, but I do not know what he will decide to recommended to you. After reviewing the requests totaling about $9.5 billion as presented by State, Defense and M.S.A., I recommended a figure of approximately $7.7 billion, exclusive of infrastructure of about $200 million which was not covered by last year's program. It may well be that several hundred million dollars more can be squeezed out of this figure of $7.9 billion without endangering the program, but before expressing a definite view I would want to get more information from the Defense Department, inasmuch as the appropriations for military items are by far the largest portion of the program. There are so many uncertainties ahead during the next eighteen months that I believe there should be some elbow room in the sums requested to take care of requirements that cannot be clearly defined today.

I hope that you will not find it necessary to come to a decision until Dean, Bob and I return from Paris, now scheduled for Friday, December 19th.[2] I believe we will have some new light on the situation in Europe and I suggest you give us the opportunity to express our personal judgments before you make your final decision.

Respectfully yours,

AVERELL

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[1] Copies were sent to Director of the Bureau of the Budget Frederick J. Lawton and Ohly.

[2] Secretary Acheson, Harriman, and Defense Secretary Robert Lovett traveled to Paris in mid-December to participate in the Tenth Session of the North Atlantic Council, Dec. 15–18, 1952; for pertinent documentation, see vol. v, Part 1, pp. 348 ff.

700.5 MSP/12-1852

Memorandum of Conversation, by the Deputy Director of the Office of African Affairs (Cyr)

SECRET WASHINGTON, December 18, 1952.

Subject: 1954 Budget for Foreign Aid Program

Participants: S/MSA—Mr. Battle
NEA—Mr. Gardiner
AF—Mr. Cyr
Economic Officers from other NEA Offices

In Mr. Longanecker's [1] absence, I attended a meeting this noon at which Mr. Battle explained a recent action of the Budget Bureau on the 1954 budget for the foreign aid program.

He informed the group that the budget had been tentatively cut by the Budget Bureau from 7.8 billion to 5.8 billion dollars. This drastic reduction, he said, will require a review of programs with a view to accommodating our thinking to the new figure. But first he wanted to know of any appeals that should be made from the Budget Bureau's action so that he might draft today a letter from the Secretary transmitting such appeals to the Bureau of the Budget.[2] In my opinion the discussion produced no basis requiring appeal on the part of AF.

The following facts, however, will be of interest to you. The military section of the proposed budget was most drastically affected. Funds for Arab economic programs were cut from $55 million to $40 million. This is the item which supposedly carries some $2,000,000 of special economic assistance for Libya.

I pointed out to Mr. Gardiner after the meeting that the seriousness of AF's need for this $2,000,000 will depend upon the progress made in our Libyan base negotiations. I said that if we are successful in obtaining an agreement on the basis of available Air Force funds, the $2,000,000 item in the 1954 budget may be reviewed solely in the light of the merits of the Libyan economic program on which it is based (in which case, I think Libya would stand little chance of getting the $2,000,000). On the other hand, however, if the Libyans insist on a larger amount than the Air Force has made available, the $2,000,000 item in the 1954 budget may become a matter of paramount importance to AF and will, in my opinion, have to be assigned a very high priority in the list of Arab-States requirements. In this latter event, there would be no question of determining the availability of these funds for Libya on the basis of

[1] David E. Longanecker of the Office of African Affairs.
[2] No such letter has been found.

the merits of the economic program outlined in the budget, but rather on political grounds. Mr. Gardiner seemed to accept my thesis and indicated that he will proceed on this basis.

Mr. Battle also reported that the $76 million requested for dependent overseas territories had been reduced to $25 million. The Budget Bureau explained that it had discussed this item with the Ex-Im Bank and that the latter had agreed to adopt a more liberal policy in respect to loans for such areas in the future. The Budget Bureau had, therefore, decided to cut the amount for the dependent overseas territories to $25 million with this understanding. This item, of course, represents the remains of the Bayne Plan. In response to a question as to whether or not NEA should appeal this reduction in the letter which Mr. Battle proposes to draft, I stated that, in view of the Administration's stricter approach as reflected in the Budget Bureau action on more important items, a State Department appeal on this particular item would not be warranted. Mr. Battle said that he heartily concurred in this view.

Mr. Battle urged strongly that the Budget Bureau action and any of the figures involved therein not be divulged to anyone because of the serious political repercussions that would result, particularly in European countries.[3]

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[3] The notes of the Secretary's Staff Meeting held on Dec. 23, 1952, read in part as follows: "Mr. Battle reported that the Secretary met with the President and other Cabinet members yesterday on the MSP budget. The $5.8 billion Bureau of the Budget marking was raised to $7.6 billion. Mr. Battle explained that he did not have complete details but was informed by the Secretary that the French figure was raised by $200 million; the Indian program raised by $200 million; Pakistan by $50 million; and $100 million was granted to MEDO." (Secretary's Staff Meetings, lot 63 D 75, "Documents, Sept–Dec 1952")

ECA–MSA Executive Assistant's files, FRC 55 A 79, box 186, "W. Averell Harriman"

Memorandum by the Director of Mutual Security (Harriman) to the President [1]

[WASHINGTON,] January 9, 1953.

Subject: Transition to the Incoming Administration [2]

This is in reply to your memorandum of December 31, 1952, with respect to the steps we have taken with representatives of General Eisenhower to facilitate an orderly transition to the incoming Administration.

As soon as Senator Lodge and Mr. Dodge were designated as General Eisenhower's representatives, I telephoned both of them

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[1] Drafted by Sheppard.

[2] For documentation on the transition of administrations between November 1952 and January 1953, see pp. 1 ff.

and offered to help them in any way I could. I later had two fairly extensive meetings with Mr. Dodge to outline for him some of the issues which would be coming up in the Mutual Security Program. I also made documents available to him for his background information.

When it was announced that Mr. Stassen was to be the new Director for Mutual Security, I telephoned him, and also wrote to him, offering to do everything possible to make the transition a smooth one.

Since then Mr. Stassen and I have met several times to discuss the problems he will face as Director for Mutual Security. In addition, he has met with most of the senior members of my staff on specific problems in their fields of responsibility.

We have provided Mr. Stassen with considerable material, both classified and unclassified, including briefing books on the substance of the problems which are likely to arise, a statistical data book, and memoranda concerning the key personnel of Mutual Security and administrative orientation.

Additional material is being developed which will be made available promptly to Mr. Stassen at his earliest convenience.

All of our personnel are standing by to give oral presentations to the new Director, as he may desire, and all of Mr. Stassen's requests for specific information, of which there have been several, have been promptly satisfied in full.

In addition, we suggested to Mr. Stassen that he allow us to begin security checks on anyone he desires to bring with him, so that they could begin working with him on classified materials just as soon as he takes office. These necessary security checks are now being made.

To sum up, I believe we have done everything we could to make it possible for Mr. Stassen to assume office with the minimum loss of momentum in the execution of the Mutual Security Program.

W. A. HARRIMAN

MSA-FOA Director's files, FRC 56 A 632, box 1, "Bureau of the Budget 1953"

The Director of the Bureau of the Budget (Dodge) to the Director of Mutual Security (Stassen)

WASHINGTON, February 3, 1953.

MY DEAR MR. STASSEN: One of the first and most important tasks of our new administration is to review the 1954 Budget and to proceed toward the accomplishment of a balanced budget.

This review will take the initial steps toward that goal; will establish in definitive form how far we can go in that direction in the fiscal year 1954; and set the stage for the fiscal year 1955. It should help to identify issues that will be significant in the formulation of the budget for that year.

The problem is complicated by inheritance of the costs of a Federal debt of more than $265 billion; indicated deficits for the fiscal years 1953–1954 totaling $15.8 billion; and accumulated unexpended balances of appropriations in excess of the total new obligational authority requested for fiscal year 1954.

It is clear that this situation will not be brought under control without action to reduce budgetary obligational authority, reduce the level of expenditures, critically examine existing programs, restrain commitments for new programs, and generally to drive for greater efficiency and reduced costs.

In this review the policies shall be as follows:

With respect to personnel: It is the policy to reduce the number of Government employees. Each department or agency head shall immediately restrict the hiring of additional personnel. No vacancies shall be filled until the department or agency head shall have determined to his satisfaction that:

a. The positions represented by vacancies cannot be eliminated.

b. Existing employees cannot be shifted to cover the vacancies.

c. Increased efficiency, better utilization of personnel, or changes in standards and policies of department or agency operation will not make possible the attainment of a and b above.

It is the policy to achieve a progressive reduction of personnel for the remainder of the fiscal year 1953 and for the 1954 Budget. Variations from this policy, as applied to individual departments and agencies, will be granted by the President in his review of the 1954 Budget only upon specific request and adequate justification by the department or agency head.

With respect to construction: It is the policy to proceed only with those projects which are deemed clearly essential in terms of the objectives of this administration and on such projects to employ the strictest standards of economy. Each department and agency head is therefore directed to:

a. Review all proposed or authorized construction projects on which work has not yet begun, and to propose initiation of construction during the remainder of the fiscal year 1953 and the fiscal year 1954 only on those projects which he determines meet the above criteria.

b. Review all ongoing construction projects in the light of the above criteria and take such action as he may deem appropriate, including action to stop the work.

With respect to all programs: It is the policy to operate at a minimum level of cost and expenditures. This policy requires that the necessity for all work be questioned and that action be taken to eliminate unnecessary programs and to hold the remainder to minimum levels. Each department and agency head is therefore directed to:

a. Permit no increases over the January rate of obligations except on complete justification and specific approval, unless such increases are clearly necessary to meet requirements fixed by law.

b. Initiate an immediate review within his department or agency calling for recommendations on the downward adjustment of program levels and for information as to the probable effect of such adjustments on Government services.

The results of these reviews should be used wherever possible in the 1954 Budget revision procedure and in the preparation of submissions for the 1955 Budget.

You are expected to translate these guides into proposals for specific revisions of the budget figures for your department or agency and to transmit them to this office in the form indicated in the attachment. Your proposals should be received by this office on or before March 2, 1953.

Pending the receipt of your recommendations and the President's decisions on proposed revisions of the 1954 Budget, any significant deviation from these policies and criteria shall be reported to the Bureau of the Budget.

Your recommendations pertaining to the 1954 Budget also should indicate the possibilities of making further changes in subsequent budgets where you propose that legislation now in effect be amended or repealed. Where your budget review indicates the desirability of a change in legislation, a draft bill or other proposal for action should be submitted for appropriate clearance as promptly as possible.

Legislative proposals, originating either in Congress or in your department or agency, which would affect financial requirements of your department or agency, should be reviewed in the light of the budget policies set forth above.

The recommendations which you make in response to this letter, like all other budget estimates, are in the nature of advice for the President, and are highly confidential prior to the time that the President formally has acted thereon.[1]

Sincerely yours,

J. M. DODGE

[1] Attached to the source text but not printed are three pages of "Technical Instructions for Reporting on Special Review of the 1954 Budget" and two model summary tables for presentation of projected data.

MSA-FOA Director's files, FRC 56 A 632, box 8, "State Department 1953"

The Director of Mutual Security (Stassen) to the Secretary of State [1]

WASHINGTON, undated.

MY DEAR MR. SECRETARY: Reference is made to the letter from the Director of the Bureau of the Budget to the heads of all executive departments and agencies, dated February 3, 1953,[2] and outlining the policies which are to be followed with respect to levels of personnel and rates of obligation during the balance of fiscal year 1953 and in re-examining the fiscal year 1954 budget. This letter concerns the application to the Mutual Security Program of that portion of the foregoing letter which relates to personnel and new obligations for personnel and other administrative purposes during FY 1953.

While the Director of the Bureau of the Budget is looking to the Director for Mutual Security to exercise general supervision over the implementation of these policies insofar as they affect the entire Mutual Security Program, primary responsibility for the actual execution of these policies must rest with the heads of the participating departments and agencies. Moreover, such execution must be consistent with, and directly related to, the application of these same policies to other personnel of such departments and agencies who are not engaged in the Mutual Security Program.

I. Personnel Reductions

A. *General*

The provisions of the Bureau of the Budget letter with respect to the policy of reducing personnel will, insofar as they are applicable, be scrupulously adhered to in the execution of the Mutual Security Program. These provisions, which apply to both Americans and foreign nationals, are the following:

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[1] Drafted by Sheppard and Ohly on Feb. 16. The source text indicates that identical letters were sent to Secretary of Defense Wilson and to Dennis A. FitzGerald, the Acting Deputy Director of the Mutual Security Agency. A covering memorandum from Stassen to Secretary Dulles, dated Feb. 17, 1953, reads in part: "Enclosed herewith find the formal letter prepared by my staff after conferences with the Bureau of the Budget, which relates the letter of February 3, 1953, from the Director of the Bureau of the Budget to the distinct problems of the Mutual Security Program. It is forwarded to you with reference to those portions of the Mutual Security Program which are carried on within your Department by means of Mutual Security Program funds."

[2] *Supra.*

"With respect to personnel: It is the policy to reduce the number of Government employees. Each department or agency head shall immediately restrict the hiring of additional personnel. No vacancies shall be filled until the department or agency head shall have determined to his satisfaction that:

a. The positions represented by vacancies cannot be eliminated.

b. Existing employees cannot be shifted to cover the vacancies.

c. Increased efficiency, better utilization of personnel, or changes in standards and policies of department or agency operation will not make possible the attainment of a and b above.

It is the policy to achieve a progressive reduction of personnel for the remainder of the fiscal year 1953 and for the 1954 budget. Variations from this policy, as applied to individual departments and agencies, will be granted by the President in his review of the 1954 budget only upon specific request and adequate justification by the department or agency head."

In applying this policy to the Mutual Security Program it is necessary to distinguish sharply between personnel who are paid from administrative funds (hereafter referred to as "administrative personnel") and personnel who are paid from program funds (hereafter referred to as "program personnel"). The following sections describe the manner in which, as to each of these two classes of personnel, the Bureau of the Budget's policy will be applied to the conduct of the Mutual Security Program by all participating agencies. Since this policy must be applied to such a variety of personnel and operations throughout the Government, unforeseen contingencies are likely to arise. As they do, or when difficulties are encountered in applying the following interpretations in individual cases, the participating agencies should consult this office for further guidance.

B. *Program Personnel*

1. The approach to be taken to any reduction in the number of MSP program personnel must be substantially different from the approach which is taken to a reduction in MSP administrative personnel. A reduction, or even the non-expansion, of current levels of program personnel may constitute a reduction in approved substantive programs. For example, a reduction in the number of personnel who are directly engaged in technical assistance projects would, in itself, represent the curtailment of going programs which the U.S., in the case of many countries, has committed itself to carry out under various international agreements. Similarly, a reduction in the personnel who are employed in the packing, handling, crating and shipment of military end-items could seriously interfere with MDAP deliveries. Consequently, any freeze on pro-

gram employment, or the imposition of any fixed employment ceiling on program personnel, should follow—and not precede—the thorough re-examination, now in process, of currently approved 1953 programs. After this review has been completed, and a determination is made as to whether, and if so, how, to reduce or eliminate any programs, such a determination may, in fact, be a determination to reduce program personnel. The decision to do so, however, is a program decision.

2. Even though, for the foregoing reasons, no employment ceiling, or freeze, on program personnel is being imposed at this time, each participating agency must nevertheless carefully scrutinize all program vacancies and, in doing so, apply the three Bureau of the Budget criteria quoted above. In other words, the necessity for re-examining current programs before making major decisions affecting the number of program personnel must not be taken as a reason for not effecting, or in any wise delay, reductions in program personnel where, without in any way modifying the level of program execution, such reductions can be accomplished through increased efficiency, better utilization of personnel or improved methods of operation.

3. The provisions of B.–1. above do not apply to those personnel who are paid from program funds but who are engaged in carrying out overhead activities. Such personnel will be subject to the policy outlined for administrative personnel in C.–1. below.

C. *Administrative Personnel*

1. Since all MSP agencies are now operating under a Ribicoff Amendment ceiling, and since it was the clear intent of the Bureau of the Budget order that the agencies have flexibility in achieving a progressive reduction, DMS intends to establish no new ceiling for administrative personnel at this time. Nonetheless, in pursuance of the policy set forth in the foregoing letter, there should be a progressive reduction in MSP personnel in this category between now and June 30. Similarly, no new reports will be required. The personnel data, as of January 31, 1953, which has already been requested (DMS letter of January 27, 1953)[2] will be used for future comparisons of personnel data.

2. As in the case of program personnel, each participating agency is expected and required carefully to scrutinize MSP administrative vacancies and, in doing so, to consider the three Bureau of the Budget criteria set forth above.

D. *Management Improvement*

In complying with the third criteria specified by the Bureau of the Budget, MSP agencies may find it difficult to use an individual

[2] Not printed.

vacancy as a basis upon which to review efficiency and better personnel utilization in a whole process or function. It is assumed, therefore, that in addition to reviewing vacancies in the light of the specific Bureau of the Budget criteria, each agency will intensify its efforts to improve management and to secure greater efficiency in its several processes and functions, and thereby to reduce the personnel and funds which are required. Some of the agencies have recently conducted management reviews of this character in connection with the Ribicoff Amendment, and thorough management reviews will undoubtedly be made in any event in developing the fiscal year 1954 budget.

Since the Director for Mutual Security will wish to report to the Director of the Bureau of the Budget on Mutual Security Program compliance with the policies embodied in the foregoing letter, it is requested that this Office be advised of any management audits of this type which are undertaken by a participating agency, and of personnel savings effected thereby.

II. Rate of Appropriation Obligations for Personnel and other Administrative Purposes

A. *Program Funds*

As in the case of program personnel, a determination as to the rate of obligation of funds for program personnel between now and June 30 must await a review of MSP programs.

B. *Administrative Funds*

The obligation of administrative funds in any subsequent month shall not exceed the total of obligations incurred in January 1953. "Administrative funds" is here defined to mean the aggregate of United States dollars and local currency employed for administrative purposes.

It is requested that each agency advise this office as soon as possible as to its total obligation of administrative funds during the month of January. Where, because of special considerations, the application of this policy in any month in any agency will have undesirable consequences, this office should be advised as far in advance as possible so that the advisability of specific modifications in, or exceptions from, the policy may be considered jointly by the agency or agencies involved and this office.

III. Reporting

In addition to the information requested under I.-D. above, it will be appreciated if each agency will furnish this office with a copy of any instructions which it issues to implement the Bureau of the Budget policy and this letter insofar as MSP personnel are concerned.

HAROLD E. STASSEN

A/MS files, lot 54 D 291, "Mutual Assistance Advisory Committee"

Minutes of the Mutual Assistance Advisory Committee Meeting, Held in the Executive Office Building, February 13, 1953 [1]

CONFIDENTIAL
MAAC M-38

[WASHINGTON,] February 26, 1953.

Present:

Office of the Director for Mutual Security:
Messrs. Stassen, Chairman
Ohly
Murphy
Tannenwald
Eichholz

Department of State:
Messrs. Martin
Claxton

Department of Defense:
Mr. Nash
Gen. Stewart
Mr. Efron

Department of the Treasury:
Messrs. Willis
J. Wood

Mutual Security Agency:
Messrs. C. T. Wood
Gordon

Bureau of the Budget:
Mr. Macy

Secretariat:
Mr. Lloyd

I. The Timing of the Congressional Presentation [2]

Action: The following schedule was accepted:

February 25—Agencies submit their revised 1954 programs to DMS. Mr. Ohly informed Mr. Nash and Gen. Stewart at the end of the meeting that Defense will make its submission to DMS at the same time that it goes to the Bureau of the Budget;

March 2—DMS will submit the total Mutual Security program to the Bureau of the Budget. BOB hearings on major programs will follow;

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[1] Regarding the origin, composition, and objectives of the Mutual Assistance Advisory Committee, see the memorandum by Sheppard, Oct. 27, 1951, p. 460.

[2] Regarding Congressional action on extending the Mutual Security Program in 1953, see the editorial note, p. 625.

March 15—Bureau of Budget advises agencies of the final decision of the President as to overall amounts and agencies do necessary reprogramming;
April 20—Agencies submit revised programs to DMS;
May 1-4—Opening presentation.

Mr. Stassen stated that he would be personally available in the event that problems arise that might affect this schedule. He also announced that he would secure the President's approval of a set of assumptions that might affect the timetable, such as Formosa and India.

Discussion: Mr. Ohly noted that some of the dates that would affect the timetable would be the March 2 date for submission to the Bureau of the Budget of the agency program re-examinations, March 25th when the report of the Evaluation Project would be received, the April 23rd meeting of the North Atlantic Council and the end of the fiscal year on June 30. Mr. Tannenwald suggested adding May 14 as the date when Congressional leaders had advised the President that appropriation legislation be through the House and the Senate.

Mr. Ohly said the problem of gathering the presentation group and the necessary briefing and presentation documents should be considered in developing the timetable.

Mr. Macy suggested that the Bureau thought the authorization legislation should go to the Hill by April 1 and that it should contain no administrative reorganization plans but that any such plans should be achieved under the Reorganization Act.[3]

Mr. Stassen observed that even with the $7.6 billion figure the NATO forces planned for 1954 could not be achieved. Mr. Nash reported that General Ridgway, whom Defense will rely on as a chief witness, wants to be able to have his testimony anchored to firm forces which are to be added to NATO after '53. On this last point he observed that Defense is thinking in terms of 13 or 14 divisions while Mr. Martin and Mr. Ohly believe it would be closer to 10 or 12.

Mr. Stassen asked if the depth concept could justify the amounts in the present budget. Mr. Nash replied that he did not believe that they could since not all of the items would be common to the Ridgway and the depth concepts.

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[3] Reference is presumably to the 1953 Reorganization Act in which the 83d Congress, in its first major action, granted President Eisenhower the same powers to reorganize the executive agencies of the Federal Government as President Truman had possessed under the Reorganization Act of 1949. The bill, H.R. 1979, which became Public Law 83-3 on Feb. 6, 1953, extended the expiration date of the 1949 Reorganization Act from Apr. 1, 1953, to Apr. 1, 1955.

Mr. Stassen asked how long it would take Defense to build up a program following the Administration's budget review. General Stewart replied that in fifteen days it would be possible to have a program which could be defended by categories although there might not be complete detail on all items. He noted that the military program for all Titles other than Title I can be justified by the services on the basis of the information that they now have. General Stewart estimated that April 15th would be the earliest date that Defense could go to Congress if the budget revision decisions are available by March 15 and DMS agrees to the military program.

Mr. Stassen raised the problem of working OSP into the program and Mr. Ohly indicated that a minimum of one week should be allowed for DMS to secure the coordination of all agencies.

Mr. Martin said that State would require six weeks following the President's decision on the final figure for the program before it could go to the Congress and suggested the Executive Branch not try to make its presentation prior to the NATO Ministers Meeting April 23-25.[4] Mr. Nash agreed and stated that General Ridgway would not be available as a witness until after the Council Meeting.

Mr. C. T. Wood stated that MSA could come within the same time limits as General Stewart had suggested for Defense. He suggested that it should be only in unusual circumstances that we tell Congress that the size of our program depends on the NATO Council Meeting.

In response to a question by Mr. Stassen, Mr. C. T. Wood indicated that the Committees do not go very far into individual country programs at the beginning of the hearings. He said that in general the House Appropriations and Foreign Affairs Committees get into much more detail than do the Senate Committees and that the Senate Foreign Relations Committee is inclined to scrutinize the programs for particular countries in which certain committee members are interested. He said that the Senate Appropriations Committee hearings are usually brief with the members asking questions which they have received from their constituents.

Mr. Willis said that Treasury would like to have the program presented as late as possible. He noted that Treasury would be meeting through March with finance officials of several countries participating in the program.

Mr. Stassen asked if there was any possibility of preparing to present special concepts such as OSP or Asian policy. Mr. C. T.

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[4] For documentation on the Eleventh Session of the North Atlantic Council at Paris, Apr. 23–25, 1953, see vol. v, Part 1, pp. 368 ff.

Wood and Mr. Ohly mentioned the use in past years of work with the Committee staffs and advance consultation with the chairmen and ranking members of the Committees.

Mr. Claxton stated that Rep. Chiperfield has urged the Executive Branch to present its program as soon as possible. He also observed that Congress is hoping for a session that will end at approximately the same time as it did last year, June 30, but that if hearings on the program do not begin until May 1 that is 1½ months later than the hearings began last year.

Mr. Efron stated that he would prefer seeking only technical amendments to existing legislation or alternatively seeking new legislation giving the executive broad authority. Mr. Eichholz expressed the view that the House Foreign Affairs Committee will not accept merely technical amendments. Mr. Efron observed that Rep. Chiperfield has suggested using the Richards bill (H.R. 1071) as a basis for the committee's work. He mentioned that the Executive Branch has prepared a lengthy substitute bill.

Mr. Macy stated that the Bureau of the Budget suggested leaving organizational matters out of the bill. Mr. C. T. Wood said that advance consultation will draw out the administrative amendments that committee members may suggest. He suggested the Executive Branch might be prepared to accept an administrative device if it is popular with the committees if it would speed the overall legislation.

Mr. Martin noted that reorganizations under the Reorganization Act will now be considered by the McCarthy sub-committee. He suggested that the Administration should not let the changes wait until May. Mr. Stassen suggested that there should be advance consultation on any proposed reorganization. Mr. Efron suggested that House leaders do not see how the new administration can come up with good reorganization plans soon and might be willing to wait for next year's presentation. Mr. Tannenwald noted that unless changes under the authority of the Reorganization Act are proposed by early March the 60-day period will not run.

Justifications for May Presentation

Mr. Nash cautioned that the reasons for not presenting the program earlier should be the need for program review by the new administration rather than solely one of waiting for the outcome of the NATO Council Meeting. He suggested that it might be possible, though there would be disadvantages, to begin the Congressional Presentation with the Far or Middle Eastern programs as early as April 15.

Mr. Martin stressed the need for going to Congress for a new Act. Mr. Macy concurred.

Mr. Martin noted that some of the agencies had not been informed of some of the information that DMS desires in the February 25th submittal. Mr. Ohly stated that he had just sent memos to the agencies indicating the material sought by way of testing the effect of reductions on certain programs.

Fund Available for All Titles

Mr. Nash asked whether the Bureau of the Budget will ask for a sum—as an example he used the figure of $1 billion—which will be authorized for programming by the Executive Branch in any area. Mr. Macy indicated that he has instructions to eliminate any "contingency" funds. Mr. Nash pointed to the need for a sum whose use would be in accord with one of several authorized alternatives. Mr. Stassen observed that much effort will be called for to explain the reasons and need for large unexpended balances and that if such an "alternatives fund" is not used at the year's end that should merit reward rather than Congressional reproach. Mr. C. T. Wood stated that Representative Taber's view would be that the Executive Branch does not know what it wants the money for.

II. Providing Information to Congress Prior to the Opening of the Presentation

Mr. Stassen mentioned the need for positive steps to prevent any adverse crystallization of Congressional opinion between now and the opening of the hearings. Mention was made of the advisability of advance consultation with staff and Committee members as well as the Chairmen and ranking members. Mr. Nash noted that the Executive Branch may get into the whole NATO problem when the Status of Forces Agreements and Protocol get into the Senate soon. Mr. Claxton suggested consideration of the value of overseas trips by the seven new members of the House Foreign Affairs Committee (6 Republicans, 1 Democrat) and the five new members of the Foreign Relations Committee (3 Republicans, 2 Democrats). In response to a question by Mr. Stassen, Mr. C. T. Wood noted that the Chairmen of the Committees have indicated that they must approve the spending of counterpart for any trips. Mr. C. T. Wood urged further that a maximum amount of effort be put on consultation. He also advised avoiding steps that would result in newspaper publicity.

Defense Bill on Military Assistance to Japan

Mr. Efron suggested that Defense should delay taking to the Congress the Army legislation approving certain transfers which have taken place in Japan. Mr. C. T. Wood stated that he would oppose delay if it meant that the bill would come to Congress at the time that the Appropriations Committees are considering the final amount for the entire Mutual Security Program.

III. General Persons' Responsibility

Mr. Stassen suggested that this problem on the Japanese transfer legislation should be taken up with General Persons.

IV. Suggested Items for Future Agenda

General Stewart suggested that there should be an announcement of responsibilities for handling the various parts of the Congressional Presentation. Mr. Ohly agreed that such a paper has to be prepared.

Mr. Efron suggested that next week the Committee should discuss and seek a decision on the type of legislation to be sought.

Mr. Nash observed that following the Munitions Allocation Council Meeting on February 16th on the purchase of $300 million of ammunition a policy problem will arise on the division of the amount between France and Italy.

Mr. Nash stated he believed that there were some outstanding problems on 1953 Defense Support that might come before the Committee. Mr. Ohly stated that he was not certain that they were ready for Committee consideration.

Mr. C. T. Wood suggested that there be further consideration of the "contingency" or "overall alternatives" fund.

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103 MSA/3-753

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Martin) to the Secretary of State [1]

SECRET WASHINGTON, February 26, 1953.

Subject: Fiscal Year 1954 MSP

Problem: To determine the position of the Department of State on the size of the FY 1954 Mutual Security Program required to achieve U.S. foreign policy objectives.

Discussion: In the absence of policy guidance as to (1) the modifications in U.S. foreign policy objectives which may affect the size of the FY 1954 MSP, and (2) the extent to which the proposed FY 1954 MSP should be cut to contribute to the goal of a balanced budget, DMS has felt compelled to secure agency reactions to arbitrary cuts in the FY 1954 MSP. It has asked MSP agencies to comment on the effect of such cuts on programs and the effect on present U.S. objectives of the reduced programs.

For example the Department of State has been asked to report on the effect of hypothetical cuts of over 30% and of over 60% in

[1] Sent through McWilliams of S/S. Cleared in substance by Jernegan, Cale, Allison, Andrews, Linder, Brown of H, and Under Secretary of State Smith.

the programs totalling 540 million dollars which we have proposed for economic and technical assistance to Near Eastern and South Asian countries.

In preparing this material the responsible officers in the Department have been asked to re-examine programs with care to include only those funds which on the basis of the latest data must be available in FY 1954 to accomplish U.S. objectives, but to assume no change in basic U.S. policy objectives.

There is attached as Annex A a summary of the position which it is proposed that the Department take with DMS on those programs for which State has operational responsibility. Our presentation of the harmful effects of these cuts, when they go below the levels we are now prepared to accept, is designed to influence the recommendations of the Director for Mutual Security to the Director of the Bureau of the Budget and of the latter to the President. The basic issue at this point will be how large the foreign aid program should be in the light of the need to balance and reduce taxes.

Later on we shall have for review from the standpoint of U.S. foreign policy papers prepared by the Department of Defense and the Mutual Security Agency on the programs for which they have operational responsibility. The State programs represent only a little over $600 million out of the total MSP proposed for FY 1954 of $7.6 billion.

Conclusion: It is essential to insure that the size of FY 1954 MSP to be submitted to the Congress does not go below a level which can effectively implement current foreign policy objectives. Therefore the broad lines of the program should be reviewed at the top policy level in the Department of State before action is taken by the DMS or the Bureau of the Budget.

Recommendation: That you approve the positions contained in the attached Annex A, covering those programs for which the Department of State has operational responsibility.[2]

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[2] A handwritten notation by Roderic L. O'Connor on the source text reads: "Sec noted & approved subject to several minor p[oin]ts discussed by me with Mr. Newman." The reference is presumably to George S. Newman of S/MSA.

[Annex A]

Paper Prepared in the Office of the Special Assistant to the Secretary of State for Mutual Security Affairs (Martin)

SECRET [WASHINGTON, undated.]

Title II—Near East and Africa:

Cut of $175 million in $240 million program rejected but cut of $90 million in considerable part accepted. Authorization only and no new appropriation for Palestine Refugee program saves $65 million. This due to slowness in getting done what we want to do. Point IV can not be cut from proposed $35 million. Regional economic fund of $140 million with flexibility retained is needed to cover economic aid to Israel, the Arab States and Iran, and to meet emergencies in this politically unstable area.

Title III—South Asia and Far East:

Cuts of $75 million and $150 million in $270 million proposal both rejected. $200 million for India and $49 million for Pakistan, consisting of Point IV plus much larger economic development aid, primarily to expand food production, considered feasible programs and not too much to put into this politically important area. Size of Pakistan program influenced by political necessity of maintaining proper proportion to India program.

Title IV—Latin America:

Cuts of $3 million and $10 million in $25 million program rejected. Small program for 19 countries not getting much other assistance from U.S. Obligation and expenditure record relatively good.

Miscellaneous:

UNKRA organization and financing is currently being re-examined by a Cabinet sub-committee of NSC. Pending outcome their work believed necessary to continue to program on basis of $71 million of new money plus continued availability of military pipeline of $40 million to be available at end of hostilities.

ICEM (Inter-Governmental Committee for European Migration) should be continued at present level of $10 million, leaving open for further study prospect of U.S. contribution to capital needs of emigrants.

Escapee program can use $12 million instead of presently proposed $10 million, provided authority is secured to operate on global basis, including Yugoslav escapees.

UN Technical Assistance contribution can take a 15% cut below $16 million proposed but not the 20% or 50% suggested.

No appreciable change is proposed for other small programs—ocean freight charges, guarantees to informational media abroad, contribution to technical assistance program of Organization of American States, or Chinese-Korean Student Exchange. It has not been proposed to continue the UN Childrens Fund, but further work is being done on this question.

It is anticipated that there may be a need for famine relief for Pakistan but the amount is not currently known. By the time the bill goes to Congress we must know whether we want more money or can take care of the problem if given adequate flexibility in shifting funds between objects and areas.

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103 MSA/3-753

The Secretary of State to the Director of Mutual Security (Stassen) [1]

SECRET [WASHINGTON,] March 7, 1953.

MY DEAR MR. STASSEN: In response to Mr. Dodge's letter of February 3, 1953,[2] and subsequent directions issued by your office, the Department of State has re-examined its FY 1954, Program proposals for those activities of the MSP which are the operational responsibility of the Department. As a result of this review, the Department's position is that for FY 1954, funds in the amount of $507,175,000 are required to carry out those activities if the successful attainment of our foreign policy objectives is not to be endangered.

In reaching this conclusion, full consideration has been given to the effect on programs and on United States objectives of the illustrative reductions in the FY 1954 MSP Budget suggested by your office. A detailed description of such effects is set forth in the attached documentation.

For the Near East and Africa, the previous FY proposal provided $240 million for technical assistance and economic development aid. Your office proposed illustrative reductions of $90 million and $175 million. The cut of $175 million would require a thorough revision of United States foreign policy objectives in this area. It would set back prospects of strengthening the Arab States along the lines which we consider necessary if this region is not to be lost to the communists by default. It would result in TCA withdrawing from certain countries and, in others, maintaining only a nominal program. This would encourage elements inimical to United States

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[1] Drafted by Newman. A notation at the end of the source text reads: "Original given to S/MSA for delivery to Stassen on 3/9/53. E. Evans, S/S."

[2] *Ante*, p. 569.

interests to take steps resulting in further TCA withdrawals. In the case of Israel, virtual abandonment of our support to that nation in its efforts to achieve stability and viability might result.

The full reduction of $90 million would prevent this Government from pursuing programs necessary for the achievement of our foreign policy objectives in this area. However, a smaller reduction of $65 million is acceptable to this Department. We propose to achieve this reduction by postponing any request for the actual appropriation of funds for contributions to the United Nations Relief and Works Agency under the Palestine Refugee Aid Act. It will be necessary to seek in FY 1954 an authorization for the appropriation of funds to furnish evidence of our continuing interest in and support of this program.

The Department is not attempting, at this time, to discuss MEDO, a subject of vital concern in this area of the world. The Department of Defense is covering this item in its program review, and the Department of State will fully support the proposal at the appropriate time.

For South and Southeast Asia, the previous FY 1954 proposal provided $270 million for TCA programs in this area. Illustrative reductions of $150 million and $75 million were suggested by your office. These reductions were to be applied in the programs for India, Pakistan and Burma.

In its re-examination of the proposed reductions, the Department found little major change in the political situations. This area's importance to the free world remains undiminished and would increase if tensions in the Far East mount further. Within each of these countries, the present government has reaffirmed its friendliness toward the western democracies even while maintaining an official position of neutrality in the conflict between East and West. However, important factions, hostile to United States interests, exist in each of the countries in this area and they seek to capitalize on any opportunity to divert their peoples from their present western orientation.

In view of the foregoing, the Department of State is of the opinion that the suggested reduction of $150 million in this program could not be accomplished without seriously jeopardizing the attainment of our foreign policy goals in this area. However, a reduction of $73 million appears, at this time, to be feasible, and the Department of State recommends the approval of $197 million for its programs in South and Southeast Asia.

For Latin America, the previous FY 1954 MSP proposal included $25 million for technical assistance. Illustrative reductions of $10 million and $3 million below this level were proposed.

As an important part of the free world, the Latin American republics, geographically, occupy or control the approaches to critical areas and installations in this hemisphere; economically, they are an important source of many strategic and critical materials; and politically, they exercise a powerful voice in the determination of United Nations policies. At present there is a wide gap between the willingness of these countries to share the responsibility of maintaining the peace by safeguarding this hemisphere, and their ability to carry out this responsibility. The ability to develop their economies to acquire a position of security and to maintain internal order is of prime importance to our own national security. Any reduction in this proportionately small program would have an immediate adverse reaction throughout Latin America. For the same reasons, we support the proposed $1 million for the technical assistance program of the Organization of American States.

With respect to other programs administered by the Department, it is our view that the Escapee Program [3] should be increased to $12 million for FY 1954 to enable the program to operate on a global basis, including Yugoslav escapees. At this time, it seems possible that the United Nations Technical Assistance contribution might be reduced to $12,750,000 from the proposed $15,000,000. It should be noted that this estimate is undergoing re-examination in connection with a general review of United States policy with respect to the United Nations Technical Assistance Program. The contribution to the Inter-governmental Committee for European Migration should be continued at the present level of $10 million, leaving open for further study the question of United States contribution to capital needs of emigrants. Pending the outcome of the study being undertaken on Korean economic needs, we should provide for a contribution to the United Nations Korean Reconstruction Agency of $71 million in FY 1954 plus the availability of a military pipeline of supplies up to $40 million in value.

Members of the Department will be available to discuss with your staff the Department's recommendations.[4]

Sincerely yours,

JOHN FOSTER DULLES

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[3] For documentation on the escapee program, see pp. 1560 ff.

[4] The source text indicates two enclosures: a table of funds requests and a program submission. The table is printed below. The program submission was not included with the source text and has not been found in Department of State files.

[Enclosure[1]

Table of Funds Requests Drafted in the Department of State

SECRET WASHINGTON, undated.

(In $ millions)

	Previous FY 1954 Budget Proposal	Present Recommendation
Near East and Africa		
TCA Bilateral Program	$35.0	$35.0
UNRRA	65.0	*
Special Aid Programs	140.0	140.0
Total	240.0	175.0
South and Southeast Asia		
TCA Bilateral Program	270.0	197.0
UNKRA	71.0	71.0
Total	341.0	268.0
Latin America	25.0	25.0
Multilateral Programs		
UN Technical Assistance	15.0	12.75
OAS	1.0	1.0
Total	16.0	13.75
NATO Hqs. Contribution	1.6	1.6
Escapee Program	10.0	12.0
ICEM	10.0	10.0
Ocean Freight	1.825	1.825
Grand Total	645.425	507.175

*Will require an authorization of funds but no appropriation. [Footnote in the source text.]

S/S–NSC files, lot 63 D 351, NSC 142 Series

Memorandum by the Assistant Director for Program of the Mutual Security Administration (Ohly) to the Special Assistant to the Secretary of State for Mutual Security Affairs (Martin) [1]

TOP SECRET WASHINGTON, March 9, 1953.

Subject: NSC Action 730–c [2]

Reference is made to NSC Action 730–c in which the Council directed that the Director for Mutual Security submit to the Council by March 17 a statement as to:

(1) the revisions in Mutual Security Programs which would be necessary in order to reduce expenditures (from both old and new appropriations) for such programs to an aggregate of $5.5 billion in FY 1954 and $4 billion in FY 1955; and

(2) the effect of such revisions in relation to currently approved national security policies and objectives.

In order to make this study certain arbitrary assumptions are necessary with respect to: (a) the distribution of allowable expenditures among the many separate segments of the Mutual Security Program; and (b) the level, or alternative levels, of permissible expenditures in FY 1956. The following assumptions with respect to each of the foregoing are to be used in undertaking the work called for below:

(a) *Distribution of Allowable Expenditures*—Since it is impossible, without more information than is presently at hand, to make even a temporary judgment as to the best division, from a national security standpoint, between military and non-military aid programs of the total allowable expenditures, it appears desirable to work from three alternative series of assumptions. These alternative series of assumptions, insofar as they concern the non-military aid programs, are as follows:

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[1] A copy of this memorandum was also sent to Hopkinson.

[2] Early in February 1953 the new Eisenhower Administration began a sweeping review of basic national security policies based upon NSC 142, "Status of U.S. Programs for National Security as of December 31, 1952," which was circulated for the information of the Council on Feb. 10, 1953. This review of basic national security policies stressed the relationship of such policies to cost and to overall national economic health, and culminated in NSC 149/2, "Basic National Security Policies and Programs In Relation to Their Costs", Apr. 29, 1953.

As one of the agencies intimately concerned with national security policy, the Mutual Security Administration and its Director were asked to prepare papers and presentations for National Security Council consideration during the period of policy formulation leading to the promulgation of NSC 149/2. Those papers and presentations bearing directly upon the Mutual Security Administration's role in the development of NSC 149/2 are printed below. For the bulk of the documentation concerning the development of basic national security policies and programs in relation to their costs, including documentation on NSC Action No. 730-c, NSC 142, and NSC 149/2, see volume II.

(i) *Expenditures in FY 1954: $1.2 billion; and in FY 1955: $.9 billion*— It will be assumed, at these levels, that there can be no expenditures in either FY 1954 or FY 1955 for the following programs: Spain, PICMME, UNKRA, escapees, materials development, and DOT's; and that the expenditures allowed will be distributed among the remaining programs as follows (figures in millions of dollars including local currency requirements):

	FY 1954	FY 1955	Total FY 1954 and FY 1955
Title I MSA aid	810	460	1270
Title II economic aid	110	137	247
Title III MSA aid	130	116	246
Title III TCA aid	107	148	255
Title IV TCA aid	20	16	36
UNTA-OAS	13	13	26
Contributions to NATO	10	10	20
Total	1200	900	2100

It should also be assumed, with this pattern of non-military aid expenditures, that expenditures for offshore procurement in Europe will approximate $400 million in FY 1954 and $800 million in FY 1955.

(ii) *Expenditures in FY 1954: $1.5 billion; and in FY 1955: $1.1 billion*—It will be assumed, at these levels, that there can be no expenditures in either FY 1954 or FY 1955 for PICMME, materials development or the DOT's; and that the expenditures allowed will be distributed among the remaining programs as follows (figures in millions of dollars and including local currency requirements):

	FY 1954	FY 1955	Total FY 1954 and FY 1955
Title I MSA aid	970	515	1485
Title II economic aid	130	160	290
Title III MSA aid	150	130	280
Title III TCA aid	130	175	305
Title IV TCA aid	23	20	43
UNTA-OAS	14	15	29
Contributions to NATO	10	10	20
Spain (Economic)	32	35	67
UNKRA	35	35	70
Escapees	6	5	11
Total	1500	1100	2600

It should also be assumed, with this pattern of non-military aid expenditures, that expenditures for offshore procurement in Europe will approximate $350 million in FY 1954 and $650 million in FY 1955.

(iii) *Expenditures in FY 1954: $1.7 billion; and in FY 1955: $13 [$1.3] billion*—It will be assumed, at these levels, that there will be no expenditures in either FY 1954 or FY 1955 for materials development or the DOT's; and that the expenditures allowed will be distributed among the remaining programs as follows (figures in millions of dollars and including local currency):

	FY 1954	FY 1955	Total FY 1954 and FY 1955
Title I MSA aid	1085	630	1715
Title II economic aid	160	185	345
Title III MSA aid	155	145	300
Title III TCA aid	160	195	355
Title IV TCA aid	24	24	48
UNTA-OAS	15	17	32
Contributions to NATO	10	10	20
Spain (economic)	32	35	67
UNKRA	45	45	90
Escapees	7	7	14
PICMME	7	7	14
Total	1700	1300	3000

It should also be assumed, with this pattern of non-military aid expenditures, that expenditures for offshore procurement in Europe will approximate $350 million in FY 1954 and $525 million in FY 1955.

(b) *Expenditure levels in FY 1956*—To the extent that such an assumption is necessary for the work hereinafter described, it will be assumed alternatively as to FY 1956:

(i) that expenditure levels for all non-military aid programs will remain at approximately the same levels as in FY 1955;

(ii) that the total expenditure level for all non-military aid programs as a whole will be reduced below the FY 1955 level by another $200 million in FY 1956, with this expenditure reduction spread among the several programs as follows (figures in millions of dollars):

Title I MSA	$130
Title II Economic	25
Title III MSA	15
Title III TCA	15
Title IV TCA	2

UNKRA	10
Escapees	3
	$200

Given the foregoing assumptions, it is requested that MSA and the Department of State undertake, each with respect to the programs for which it has primary programming responsibility, and submit to this office not later than 12:00 P.M., Saturday, March 13, studies [3] which will indicate the following:

(1) The extent to which each of the alternative expenditure level patterns would, in terms of size, composition and purpose:

(a) require, and if so how, a revision in current FY 1950–53 programs (including any necessity for defaulting on existing international understandings; stretch out; etc:);

(b) require, and if so how, a revision in the proposed FY 1954 programs as submitted by the agency to the Bureau of the Budget in connection with the FY 1954 budget reexamination; and

(c) require changes, and if so what changes, in the FY 1955 programs which the agency presently foresees as necessary if currently approved national security policies and objectives (as generally reflected in the $7.6 billion FY 1954 budget) are to be carried out.

(2) The effects of making the revisions and changes indicated as necessary in (1) above on the attainment, or rate of attainment, of currently approved national security policies and objectives, including, where appropriate and practicable to make an estimate, the probable indirect effects of reduced expenditures on the capacity of recipient nations to raise and maintain forces of the size now anticipated and otherwise to carry out its military missions.

(3) On the assumption that the aggregate expenditures allowed for any given program for both FY 1954 and FY 1955 might be rephased as between these two years, any rephasing which the agency recommends for any program, and the consequences, in terms of the effects reflected in (2) above, of such rephasing.

(4) Any actions, other than those requiring foreign grant aid, which, if taken, might obviate or reduce the effects listed in (2) above.

It is also requested that MSA transmit a copy of its study to the Department of State simultaneously with its transmittal thereof to this office, and that the Department of State, not later than the close of business on March 15, submit to this office its views on the

[3] The studies under reference cannot be further identified, but see the paper prepared in the Office of the Director of Mutual Security in late March which presumably drew upon and summarized such studies, p. 596.

political aspects of the program actions indicated by such study to be necessary if the assumed expenditure levels were accepted.

The Department of Defense is simultaneously undertaking studies with respect to the military aid programs on assumptions which are consistent with those set forth above, and arrangements will subsequently be made for the integration of such studies with those requested in this memorandum.

It is requested that this general study and its various components be handled as a matter of highest priority and with maximum security precautions.

JOHN H. OHLY

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 137th Meeting of the National Security Council on Wednesday, March 18, 1953 [1]

TOP SECRET EYES ONLY

Present at the 137th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Under Secretary of State; the Secretary of Defense, and the Director for Mutual Security. Also present were the Secretary of the Treasury; the Secretary of Commerce (for Items 1 and 2); the Director, Bureau of the Budget; the Chairman, Joint Chiefs of Staff; the Administrative Assistant to the President for National Security Matters; the Special Assistant to the President for Cold War Operations; the Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC. Various staff members from the Department of State, the Department of Defense, the Department of Commerce, DMS, MSA, and CIA, were also present to assist their principals during the discussion of Items 1 and 10.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion of agenda items 1–9: "U.S. Policies and Programs in the Economic Field which may Affect the War Potential of the Soviet Bloc", "U.S. Civil Aviation Policy Toward the USSR and its Satellites", "NATO Strategy", "Settlement of Republic of Korea Advances of Korean Currency (Won) to United States Forces", "Evaluation of Possible Reductions in the Atomic Energy Commission Program", "Recommendations Regarding the National Security Council", "Civil Defense", "Significant World Develop-

[1] This memorandum was drawn up by Deputy Executive Secretary of the NSC Gleason on Mar. 19.

ments Affecting U.S. Security", and "U.S. Objectives and Courses of Action With Respect to Latin America". The last discussion is printed in volume IV, page 2.]

10. Review of Basic National Security Policies: The Mutual Security Program (Memo for NSC from Director for Mutual Security, subject: "Review of Basic National Security Policies—Report of the Director for Mutual Security pursuant to NSC Action 730–c", dated March 17, 1953) [2]

Mr. Cutler referred briefly to the Council action in response to which Governor Stassen would brief the Council on the effects of the proposed budget cut on the objectives of the Mutual Security programs.

Governor Stassen first handed out a lengthy report on the subject, and then asked permission to have members of his staff who had prepared the report present during his oral summary. For approximately a half hour, with the assistance of his staff and of a series of charts, Governor Stassen briefed the Council on the problem which had been assigned to him. His conclusion as to the effect of the proposed cut was extremely gloomy. He felt that a cut of these proportions might well, for example, spell the end of the French effort to save Indo-China, and might also result in French refusal to ratify the EDC treaties. Similar grim repercussions could be anticipated in other crucial areas of the free world.

After some discussion, in response to the President's query as to whether the cutback was in the budgetary program or in the expenditure program, Governor Stassen went on to stress that not the least serious impact of the proposed cut was that the United States was already so thinly spread in many areas which it needed to defend from Communist attack. The psychological effects were all the more serious when you considered the timing of the proposed cut. Much of the training, for example, of the foreign forces which were to be equipped with United States matériel had been completed. So likewise was much of the infrastructure. All that was now needed was to send the matériel, and it was really beginning to flow in considerable volume. To stop it now would mean withholding from our friends and allies the last increment of aid which was needed to help them stand on their feet. This would not only be a serious material blow but a very bad psychological move.

After this conclusion by Governor Stassen, the Vice President inquired whether Governor Stassen's views indicated that he and his people had already reached the conclusion that the figure for foreign aid in the Truman budget was about the minimum figure

[2] For a summary of this report, see *infra*. Regarding the review of basic national security policies undertaken in 1953, see footnote 2, p. 588.

which the Mutual Security Administration was prepared to recommend to the President and the Congress.

Governor Stassen said that he was unable to go that far and that his report had been merely designed to show what would happen if cuts of the magnitude proposed should actually be made. Obviously the effects of such cuts would be very grave indeed, but he was not prepared to make any specific recommendations at this point. For one thing, it was vitally important to hear from Secretary Wilson on the Defense program scheduled for next week's Council meeting.

Secretary Wilson interposed to say that he anticipated that the Defense Department would find itself compelled to deal with much the same kind of problem, and, he added, "we will probably have to try to strike some kind of compromise between the figure for the Defense program set forth in the Truman budget and the figure which would result if the proposed cut were to be made."

Secretary Smith then stated that he wanted to take this opportunity to register his strong support of Governor Stassen's delineation of the dangerous results of a cut of this magnitude. He admitted that we were faced with very terrible alternatives. It seemed to him that it was not going to cost less but more if the United States was to achieve the objectives that it sought in Asia. This was an inescapable conclusion.

The Vice President stated that there seemed very good reason to recommend against such a cut as this in view of the effects that Governor Stassen had outlined. But he felt that he must warn of the serious political problem which the Administration would face in Congress if no cuts were made. Most members of Congress were happily convinced that a substantial cut could and should be made. If the National Security Council were to conclude that we cannot cut the budget, or worse, that we must even raise our sights, it would require a very impressive selling program in Congress.

Governor Stassen admitted the wisdom of the Vice President's view, but said that he thought he had recently detected some slight shift in Congressional feeling that a cut in the national security programs must be made. Of course, there still remained an educational job to be done, but when we reach whatever conclusions we do, and the President agrees to these conclusions, every effort should be made to carry them through the Congress, and Governor Stassen believed that the President's leadership would win out.

The President replied that he thought the answer was "yes" if, prior to any decision as to the size of the national security programs, we could take a good hard look at the very real savings that could be made in the areas of administration, overhead, and procurement in these programs. This was something which needed the

most careful investigation, and assurance that this investigation has been made and all possible economies effected would go a long way to help sell Congress on the necessity for supporting the figure recommended by the Administration.

Mr. Cutler stated that Secretary Dulles had requested him to announce that Secretary Dulles supported the conclusions reached in Governor Stassen's written report and oral summary if Governor Stassen's assumptions were borne in mind.

Secretary Wilson said that he felt that he could not at this time give his opinion on Governor Stassen's estimate, and asked to reserve his views until the conclusion of next week's Defense Department presentation. Nevertheless, Secretary Wilson said that he did not feel that all the possibilities for effecting real savings in the budgets for FY 1954 had been thoroughly explored. There were still possibilities such as a stretch-out of the time of readiness, a reappraisal of certain of our objectives, and a balance of inventories. Certainly none of these and others were sacred cows which ought to escape careful scrutiny.

The National Security Council:

a. Noted and discussed the subject on the basis of the reference memorandum distributed at the meeting and summarized orally by the Director for Mutual Security.

b. Noted that the Under Secretary of State expressed the support of the Department of State for the presentation made by the Director for Mutual Security.

c. Deferred further consideration of the subject pending receipt of the Defense Department presentation, pursuant to NSC Action No. 730–c, at the next Council meeting.

[Here follows discussion of agenda item 11, "NSC Status of Projects."]

Eisenhower Library, Eisenhower papers, Whitman file

Paper Prepared in the Office of the Director of Mutual Security[1]

TOP SECRET WASHINGTON, undated.

SUMMARY OF THE REPORT OF THE DIRECTOR FOR MUTUAL SECURITY PURSUANT TO NSC ACTION 730–C

I. INTRODUCTION

This is a summary of the statement* submitted to the Council on March 18, 1953 by the Director for Mutual Security pursuant to NSC Action 730–c, which requested a report on: (1) the revisions in Mutual Security programs which would be necessary in order to reduce expenditures for such programs to an aggregate of $5.5 billion in FY 1954 and $4 billion in FY 1955; and (2) the effect of such revisions in relation to currently approved national security policies and objectives. The foregoing statement was in turn based upon separate reports from the Departments of State and Defense, and the Mutual Security Agency, copies of which were attached.

II. ASSUMPTIONS

A. As to Expenditure Distribution

In view of the fact, illustrated in Table I, that the total resources available (expenditures allowable), within the foregoing expenditure limitations, would be grossly inadequate to carry out all current programs at the levels and rates heretofore contemplated, it was necessary to make assumptions with respect to the most balanced and effective distribution of those resources available (expenditures allowable) among the more than 100 separate components of the Mutual Security Program. Recognizing the variety of possible choices, and not wishing to prejudge the best, three alternative illustrative assumptions were made with respect to the allocation of the total expenditures allowed for each year between (a) military aid programs and (b) economic aid programs. Then, within the framework of each such illustrative allocation, further assumptions were made as to the distribution among individual programs.

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[1] Transmitted to the members of the NSC under cover of a memorandum by NSC Executive Secretary Lay, dated Mar. 30, 1953. Lay noted that the summary was transmitted for the information and use of the NSC in connection with its discussion with the Civilian Consultants on Mar. 31 regarding basic national security policies as well as the Council's own review of basic national security policies at the Council meeting on Apr. 1. For documentation on the NSC discussion with its designated group of Civilian Consultants regarding basic national security policies, see volume II. The full report of the Director of Mutual Security has not been found.

*Page cross-references to the original statement are given in parentheses at the conclusion of each paragraph of this summary. [Footnote in the source text.]

These three alternative expenditures assumptions are shown in Table I, which also shows planned expenditures for FY 1954 as reflected in the submissions of the several agencies in the Special FY 1954 Budget Review. (pp. 1-2)

While numerous minor variations in the foregoing illustrative expenditure patterns are possible, the extent of major choice is, as a practical matter, severely limited by the extent to which the conduct of past and present programs has already imposed relatively inflexible expenditure patterns for FY 1954 and, to a lesser degree, for FY 1955. Of the $12.5 billion of unexpended Mutual Security balances on February 28, 1953, all but $4.9 billion had been obligated as of January 31, 1953 and the balance mostly represented: (a) funds which, while not technically obligated, must, under the terms of international understandings and agreements, be obligated before the end of this fiscal year for specific purposes; and (b) the cost of procuring and shipping military equipment, and of providing training, which the U.S., through representations in NATO and directly to other countries, had strongly implied that it would furnish even if it had not technically committed itself to do so. Drastic changes in expenditure patterns would therefore require cancellation of contracts, the abrogation of international commitments, the extension of delivery dates under existing contracts, and the non-obligation of funds which, though programmed for known requirements, still remain unobligated. (pp. 3, 7)

B. As to Expenditures in FY 1956

It was also assumed that expenditures in FY 1956 would remain at approximately the same levels as in FY 1955 and, alternatively, that, in the case of non-military aid programs, expenditures would be reduced by $200,000,000. (p. 8)

III. REVISIONS REQUIRED IN THE MUTUAL SECURITY PROGRAM

A comparison of column 1 with columns 2, 3 and 4 in Table I shows illustratively the cutbacks in planned expenditures for major foreign aid programs which the stipulated expenditure limitations would impose in FY 1954, and the further reduction which would be required in FY 1955. Charts I-A and I-B [2] bring out this comparison graphically and also relate expenditures under the ceiling to those for foreign aid during each year since 1946. Since (a) about 94% of the program represents payments for goods and services commercially procured and contributions to international organizations (See Chart II) and (b) approximately ⅘ of the remainder reflects the cost of technicians working overseas in the technical as-

[2] None of the charts is printed.

sistance program and of personnel in depots, arsenals, port facilities, rehabilitation centers, etc., who are engaged in producing, rehabilitating, packing, and shipping military equipment, these reductions in expenditures would represent nearly equivalent reductions in the real resources transferred to foreign aid recipients. In other words, the area in which dollar savings may be affected by administrative and operational economies is insignificant in relation to the program as a whole. The following paragraphs summarize some of the more specific program revisions which would be required under the three alternative assumptions. (pp. 9–12; Appendix E)

In Europe now obligational authority requested in FY 1954 would be reduced from $1.08 billion (Special Budget Review) to $366 million (Assumption A); $537 million (Assumption B); or $694 million (Assumption C); and, in FY 1955, respectively to $301, $373 and $502 million. (Charts III–A and III–B illustrate the major changes which would be involved in FY 1954 under the ceiling by showing past and proposed aid programs for Europe, and comparing them with the programs possible under Assumption B.) Under all assumptions, future aid to the United Kingdom would be eliminated, and under Assumption A, further assistance to Italy, Yugoslavia, Austria and Spain as well. Programs not eliminated would be reduced in FY 1954 below present estimated requirements by approximately 68% (Assumption A); 53% (Assumption B); and 40% (Assumption C); with additional sharp reductions necessary in FY 1955. (pp. 12–15; Appendix B)

In the Middle East, under all assumptions, technical assistance programs could be continued as planned and minimum direct relief furnished Arab refugees. However, under Assumption A, it would be only barely possible to meet minimum needs of any one of four other proposed programs (Israel; Arab refugee resettlement; economic aid for the Arab States; special assistance to Iran); and under Assumption B, the situation would be only slightly improved. Under Assumption C, and with the hypothesis of no emergency in Iran, other programs could be undertaken, but at levels substantially lower than presently anticipated. (pp. 16–17, Appendix D)

In South Asia, planned new obligational authority for the two years FY 1954 and FY 1955 of $495 million would be reduced to $300 million (Assumption A), $350 million (Assumption B), or $380 million (Assumption C). The least favorable assumption would curtail even present technical assistance programs and eliminate any possibility of new developmental activities in FY 1954; whereas the most favorable assumption would permit initiation of programs of

the type proposed but at the expense of a substantial stretchout. (pp. 17–17a; Appendix D)

In the Far East, the basic character of the present programs would be materially altered under Assumption A; but under Assumption C, there would only be some deferral of presently planned expenditures. *In Latin America*, the least favorable expenditure allowance would require a severe reduction in the level of current programs, although not until FY 1955; whereas the most favorable would permit a small increase in the present level, but not to the extent recommended by the Department of State. (pp. 17a–20; Appendices C and D)

Other economic programs would be affected as follows: Under *all* assumptions, programs for the dependent overseas territories and materials development would be eliminated and, under Assumption A, also those for UNKRA, Spain, escapees and the Inter-governmental Committee for European Migration (also Assumption B). Even under the most favorable assumption, the amounts available for continued programs would, except for multilateral technical assistance, be slightly over one-half of estimated requirements. (pp. 21–24; Appendices B and D)

The effect on military aid programs is illustratively shown in Table I and is summarized by the following quotation from the report of the Department of Defense: "It is estimated [Assumption A][3] that deliveries through June 30, 1954 would be approximately 35% less than the delivery rate believed to be within the capabilities of the Department of Defense and that deliveries in FY 1955 and thereafter would be approximately 50% less than the rate believed possible by the Department of Defense." (pp. 25–28; Appendix A)

IV. EFFECTS OF REQUIRED PROGRAM REVISIONS ON CURRENTLY APPROVED NATIONAL SECURITY POLICIES AND OBJECTIVES

The program revisions indicated to be necessary under Section III would have the following effects:

A. Europe (including Greece and Turkey)

The reduction required in economic aid would, under Assumption A, completely change the relationship of the United States to the European defense effort and result in about $3 billion less in European defense expenditures in FY 1954 than presently estimated, with a further drop of perhaps $700 million in FY 1955. Serious resulting balance of payments difficulties would in turn cause deliberalization of trade, reduced economic activity, higher unem-

[3] Brackets in the source text.

ployment and pressures to expand Soviet bloc trade. Some or all of the following consequences might also ensue: abandonment of the French effort in Indochina; failure of the EDC, and thus no rearmament of Germany; the loss of Berlin; dissolution of NATO; abandonment of Spanish military bases; and political instability in many countries, with probable shifts toward neutralist or pro-Soviet governments. Under Assumption C, the prospects of EDC, and therefore of German, rearmament, would improve but still be poor; FY 1954 European defense expenditures would be $2.4 billion less than anticipated; and Assumption A economic effects would still occur, but would be less severe. (pp. 28–32; Appendices B and F)

The reductions required in military aid expenditures, using Assumption B, would, illustratively, be equivalent to: (a) complete elimination of the program for Germany, involving some 500 aircraft and up to twelve divisions of ground forces; *plus* (b) retardation by twelve months of the date by which the December 1953 NATO ground forces would receive their MDAP equipment, with no build-up beyond that level during the entire period under review; *plus* (c) reduction by 300 to 400 aircraft, with related equipment and ammunition, and by perhaps 100 vessels, below the forces to be on hand at the end of 1955. *Alternatively:* the reduction would be equivalent, in terms of the expenditures eliminated during the two years FY 1954 and FY 1955, to the complete elimination of about ⅔ of FY 1950–53 MDAP programs, or of the entire programs for the following countries: Belgium, Norway, Italy, Turkey, Portugal, United Kingdom, and Yugoslavia. (pp. 32–33; Appendix A)

The proposed ceilings would require an abrupt reversal of the course pursued by this country since the development of the NATO concept; would destroy the understandings on which European actions in NATO have been based; and would cause a loss of confidence in the continuity of U.S. policy which it might take decades to overcome. It would create political, military and economic situations in Europe which would necessitate a complete re-examination of U.S. security policies. (pp. 33–34; Appendices A, B, D, and F)

B. The Middle East and Africa (exclusive of Greece and Turkey)

In this area, assistance represents our primary tool for achieving our most vital objectives. Under all assumptions, the resources available would constitute an inadequate tool—insufficient to permit significant progress toward at least some of these U.S. objectives: (1) Partial solution to the refugee problem; (2) reduction in Arab-Israeli tensions; (3) the economic viability of Israel; (4) a Middle East defense organization; (5) a favorable solution of the

Suez problem; (6) pro-Western orientation of the Arabs; (7) political stability in Iran; if dependent on budgetary or developmental aid. (pp. 35–38; Appendix D)

C. South Asia

Under Assumption C, programs of the type currently envisaged could be conducted, but under a stretchout which, in the case of India, would postpone its full impact beyond the crucial 1956 elections. Under the other assumptions, the 5-year plan could not succeed, and its failure might place India beyond the point where massive U.S. aid could be effective. (pp. 39–40; Appendix D)

D. The Far East

On the hypothesis of no significant increase in levels of indigenous military activity in Formosa and Indochina, Assumption C would require some postponement, but no alteration in the basic character, of measures now planned to create stability and to support presently planned military establishments. Under Assumption B, the attainment of military and economic strength would be further postponed, and under Assumption A, major projects would have to be abandoned, or fundamentally revised, and local expenditures required to sustain military efforts would be inadequate. (pp. 40–41; Appendix C)

Since total requirements for Indochina would be met as a first priority, the re-equipment of Formosan forces would be postponed well beyond FY 1955; the flow of equipment to Thailand and the Philippines would become a mere trickle; and prospects for further Japanese rearmament would be negligible. The possibility of larger and stronger indigenous forces in this area, capable of reducing requirements for U.S. units, would be largely removed. (pp. 41–43)

E. Latin America

Reduced expenditures for economic aid would, to a greater or lesser degree, depending on the assumption selected, have the following effects: Create the impression that the U.S. was defaulting on existing commitments; strengthen the position of anti-U.S. elements; weaken hemisphere solidarity and prejudice the cooperative role of the Latin American nations in hemisphere defense, their support of our policies in U.N. and their ability and willingness to make available strategic and critical materials needed by the United States. The virtual elimination of military aid would materially postpone the date when Latin American units might take over missions which, in the event of war, would otherwise require the deployment of substantial U.S. forces; and would seriously impair cooperative hemispheric defense measures. (pp. 43–44; Appendix D)

F. Other Programs

The elimination of UNKRA, certain under Assumption A and likely under Assumptions B and C, would probably (a) create a situation, even assuming no increase in ROK units, in which either the Battle for Korea would be lost behind the lines or the Department of Defense would be forced to expend vastly larger amounts than at present for relief and prevention of unrest; and (b) weaken the international character of the Korean effort. Elimination of materials development would remove an opportunity to develop new and economically sounder world trade patterns and thus tend to increase, rather than reduce, future U.S. foreign aid expenditures; lessen the possibility of finding a solution to Asia's food problem; and increase Japanese dependence on Communist sources. The absence, or sharp reduction, of the Escapee and ICEM (PICMME) programs would, respectively, weaken our political, psychological and intelligence programs for the cold war, and destroy, or decrease the effectiveness of, efforts to remove Europe's surplus populations. (pp. 45–47; Appendices B and D)

TABLE I

(All figures are in millions of dollars. Unbracketed figures relate to FY 1954; bracketed to FY 1955)

	Planned Expenditures (Special Budget Review)	Assumption A Expenditures		Assumption B Expenditures		Assumption C Expenditures	
		1954	1955	1954	1955	1954	1955
Military Aid							
End Items							
Europe (exclusive of Greece & Turkey)	4388	2700	(1750)	2500	(1600)	2350	(1500)
Greece and Turkey		300	(200)	250	(190)	250	(160)
Iran	530	10	(10)	10	(10)	10	(10)
MEDO		25	(45)	15	(35)	—	(10)
Far East	836	650	(650)	630	(650)	630	(630)
Latin America	32	15	(15)	15	(15)	10	(10)
Total End Items‡	5786†	3700	(2670)	3420	(2500)	3250	(2320)
Infrastructure	200	200	(100)	200	(100)	200	(100)
Accessorial & Training	450	300	(230)	280	(200)	250	(180)
Other	100	100	(100)	100	(100)	100	(100)
Total Military Aid	6536†	4300	(3100)	4000	(2900)	3800	(2700)
Economic Aid							
Europe (including Greece and Turkey)	1327	810	(460)	970	(515)	1085	(630)
Middle East and Africa	230	110	(137)	130	(160)	160	(185)
Far East	170	130	(116)	150	(130)	155	(145)
South Asia	168	107	(148)	130	(175)	160	(195)
Latin America	25	20	(16)	23	(20)	24	(24)
Other	144	23	(23)	97	(100)	116	(121)

TABLE I—Continued

(All figures are in millions of dollars. Unbracketed figures relate to FY 1954; bracketed to FY 1955)

	Planned Expenditures (Special Budget Review)	Assumption A Expenditures		Assumption B Expenditures		Assumption C Expenditures	
		1954	1955	1954	1955	1954	1955
Total Economic Aid	2064	1200	(900)	1500	(1100)	1700	(1300)
Total All Aid	8600†	5500	(4000)	5500	(4000)	5500	(4000)

†Since this table is a consolidation of several tables in the main report and since figures in some of the latter were rounded, no exactly comparable figures will be found in any single table of the main report. [Footnote in the source text.]

‡It was further assumed that of total end-item expenditures, the following would represent those for offshore procurement (figures in millions): (1) Under Assumption A—$400 (1954) and $800 (1955); (2) Under Assumption B—$350 (1954) and $650 (1955); and (3) Under Assumption C—$350 (1954) and $525 (1955). [Footnote in the source text.]

MSA-FOA Director's files, FRC 56 A 632, box 1, "Bureau of the Budget, 1953"

The Director of Mutual Security (Stassen) to the Director of the Bureau of the Budget (Dodge)[1]

SECRET [WASHINGTON,] April 6, 1953.

DEAR MR. DODGE: This will refer to your letter of February 3, 1953[2] relative to a review of (1) current programs and (2) proposed FY 1954 programs, with a view toward progressive reductions in new obligations and in expenditure levels under the Mutual Security Program. It now seems appropriate to give you a summary report on the actions which have been taken pursuant to the foregoing letter and to advise you of further actions which are still contemplated. Before doing so, it will be useful to recall that immediately before the dispatch of the foregoing letter, and again subsequent to its formal transmittal, this office informally brought to your personal attention, and to the attention of members of your staff, the impracticability of a literal application to the FY 1953 Mutual Security Program of many of the specific criteria or ground rules which your letter suggested. In this respect, as we noted, our situation is similar to that of the Department of Defense in relation to certain of the military programs. We review this situation below.

I—The Relation of the February 3d letter to the Mutual Security Program

A. *As to personnel—*

While personnel costs represent a minor fraction of the total costs of the Mutual Security Program, it is nonetheless of the utmost importance, for the reasons hereinafter set forth, to draw a sharp distinction between "administrative personnel" and "program personnel"—between personnel who are the overhead engaged in the administration and execution of the program on the one hand, and personnel who constitute a part of the program itself on the other hand. Thus, although something like four percent of the total cost of the Mutual Security Program is directly attributable to the cost of personnel, as indicated in Appendix A hereto,[3] about seven-tenths of this amount represents what we commonly call "program costs"; and reductions in "program costs" reflect, for the most part, not administrative savings resultant from improved efficiency and the elimination of executive waste or duplication, but actual cutback in the real resources provided our

[1] Drafted by Ohly on Apr. 1; a copy was also sent to Under Secretary Robert Murphy.

[2] *Ante*, p. 569.

[3] No appendixes accompany the source text.

friends as foreign aid. This distinction is so important that the principal illustrations of "program personnel" deserve specific mention.

In the first place, there are the technical assistance personnel who constitute, in the under-developed countries, the most crucial, or at least an indispensable, part of the entire program and, in the developed areas, a vital, if much smaller, portion of our aid. Without such technicians, there can be no TCA program, for the supplies and equipment which are also provided, no matter how large in amount, are in general either incidental to, or dependent for their effectiveness upon, such technicians. Therefore, any restriction on the planned recruitment of, or any cutback in the present levels of, this type of personnel is tantamount to a reduction in, or the abandonment of, the program itself. Personnel, military and civilian, employed by the Armed Forces to provide training to foreign nationals fall in the same category.

In the second place, there are the large numbers of individuals who are employed by the Department of Defense in arsenals and rehabilitation centers and who are engaged in the manufacture or repair of military equipment designed for shipment to our allies. Reductions in these categories are, unless the same production is transferred to private facilities under contract, the equivalent of reductions in physical volume of end-items made available as foreign aid.

Finally, there are the workers in depots, ports, etc., who are engaged in the physical processing of MDAP equipment—its inspection, packing, crating and transportation. Obviously, cutbacks here mean a decrease in shipments of available equipment—a program reduction.

I labor the foregoing distinction, not to prejudge the question of whether reductions in actual, or planned increases in program personnel are desirable, but rather to emphasize that this question is a program, and not a personnel, question; that it must be handled as part of the issue of the kind and level of foreign aid programs which the U.S. is committed to and/or should conduct, and not by the automatic application of the kind of criteria and standards set forth under the personnel category of your February 3 letter. We have followed this distinction in the actions taken pursuant to your letter, as my summary report thereof below will indicate.

Two other special points relating to what can properly be described as administrative personnel warrant brief, passing mention. *First*, a large number of the individuals who are employed overseas in an administrative capacity are paid in local currency which is either contributed by the host government or accrues to the United States as counterpart. Thus, at least in FY 1953, an important

share of employment expenses is met from sources other than appropriated funds, and their elimination would not represent any net saving in appropriated funds. Moreover, although it can be said that counterpart represents an asset of the United States Government that might be used for other purposes, now or in the future, thereby eliminating the need for certain dollar appropriations which would otherwise be required, this is not the case with contributed currency. To the extent that an expense covered by contributed currency is eliminated, the currency contribution is reduced, providing the U.S. with no net saving. *Second*, it should be observed that the Mutual Security Program is administered under a Congressionally imposed personnel ceiling, a ceiling that has been progressively reduced in successive sessions of the Congress. In other words, Congress has, by law, already effected two substantial cutbacks in personnel allowed for the administration of the program. I emphasize that I cite these special points, not to prejudge the question of the extent to which overhead savings may be accomplished without program damage, but rather to place the problem of MSP personnel in proper perspective.

B. *As to construction—*

Since it is my understanding that your instructions with respect to construction have no specific application to construction currently being, or proposed to be, carried out under the control of foreign governments and/or international organizations, even though U.S. local currency and/or dollar aid is directly or indirectly involved in its financing, compliance with such instructions creates no special problems for the Mutual Security program, and the standards and criteria suggested by you can be, and have been, applied literally to the minor U.S. construction projects with which the Program is occasionally concerned.

C. *As to programs—*

The essential feature of your instructions with respect to FY 1953 programs, apart from the general injunction "to eliminate unnecessary programs and to hold the remainder to minimum levels," was the direction to "permit no increases over the January rate of obligations except on complete justification and specific approval unless such increases are clearly necessary to meet requirements fixed by law." Although, because of the specific escape clause, literal compliance with this direction has not presented, and does not now present, any problem, it is nonetheless important to bring out, as I know you recognize, that the standard employed—"no increases over the January rate of obligations"—bears no mechanical relation to the nature of the Mutual Security Program and is not the kind of yardstick that is helpful in endeavoring to effect an intelligent retrenchment in that program. It can only be applied in

the kind of program (a) that has a reasonably definite monthly pattern of obligations and expenditures (whether that pattern be one of increasing, decreasing or level obligations and expenditures), and (b) in which the month of January is reasonably typical. In the case of most components of the Mutual Security Program neither of these conditions apply and, in addition, the situation is complicated by the existence, with respect to a large portion of unobligated Mutual Security funds, of international commitments. Obligations are not incurred at a relatively even monthly rate, as in the case of agencies where the principal expenditures are for personnel, recurrent supplies of a standard nature, and the furnishing of continuing services of a relatively static character; they fluctuate, and must in the nature of the program fluctuate, from month to month as will be illustrated below. It is almost pure happenstance as to whether the rate of obligations in any particular month will be many times more, or much less, than the average rate of monthly obligations for the year as a whole. January 1953 was, in fact, because of large deobligations, less typical than even the very untypical usual month, although Appendix B, which shows the obligations for the major program components in January, nevertheless illustrates the general point. The following paragraphs indicate, program by program, why the foregoing situation obtains.

(1) *Military Assistance*—In the military assistance program, most obligations, except relatively small ones for training, fall into two major categories—procurement (including rehabilitation and repair); and accessorial (packing, handling, crating and transportation). The second of these is entirely determined by the volume of goods which, in any given month, are being prepared for, or are in the process of, shipment. This volume is in turn fixed by the rate of production under material contracts placed many months, and often years, previously, and by the system of allocation. Thus, *except* as decisions are made not to deliver finished goods or to cancel existing procurement contracts, actions taken now, or during the remainder of this fiscal year, can have no significant effect on the predetermined rate of obligation in this category until 18 to 24 months hence.

It is, therefore, obligations under the first category, i.e., for procurement, which represent the key factor. The volume of such obligations in any given month is affected, in the same manner as procurement obligations for our own military departments, by the general pattern of service procurement, a pattern which traditionally, whether necessarily and wisely or not, finds obligations peaking in the latter months of a fiscal year as funds made available by the Congress are gradually translated into contracts. Obligations in the summer and fall are small, and in the spring large; in a winter month, such as January, their rate may or may not, depending on the chance placement in that month of a number of large contracts, represent a theoretical average monthly rate adequate to obligate the total annual appropriation. Even if, by coincidence, it

should approximate this theoretical average, it has no meaning as a sensible norm to measure or control actual obligations in subsequent months since, by hypothesis, the greatest portion of the annual appropriation will still remain unobligated on February 1. For example, if January had in fact produced an obligation rate equal to approximately one-twelfth of the annual appropriation, or slightly under $400 million, a continuation of such rate through the remaining 5 months would have resulted in a June 30 unobligated balance of over a billion dollars.

(2) *Contributions to International Organizations*—Approximately $100,000,000 in FY 1953 MSP funds were earmarked for contributions to various international organizations—UNKA [*UNTA?*], UNKRA, [illegible], PICMME [illegible], UNICEF, NATO. These contributions represent the fulfillment of pledges previously made by the Executive branch of this Government subject only to (a) the appropriation of funds by the Congress and (b) certain special conditions such as demonstrated operating requirements of the international agency and matching contributions by other nations. Such contributions are not normally prorated evenly on a monthly basis over the whole fiscal year; on the contrary, their timing is most uneven and almost wholly determined by factors which are beyond the control of the United States, principally the phasing of the requirements of the international organization and of matching contributions by others. Hence the rate of obligation (and the act of contribution usually is the act of obligation) in a particular month, such as January, constitutes no intelligent standard whatsoever for determining an appropriate level for the annual program or the rate of obligation which is proper in succeeding months. Moreover, even if the contrary were the case, the fact of the matter is that previously planned contributions represent, to the extent that (1) they are covered by pledges and (2) the conditions attached to those pledges are not, international commitments of the U.S. Government.

(3) *The MSA Program*—Under the MSA programs, it is the customary procedure to inform other nations of the approximate level of aid (new obligational authority) which they can anticipate will be made available during the course of a fiscal year. Sometimes this advice is conveyed at the outset of the year, but more normally each nation is first informed of an initial base figure and then, subsequently, if this base figure is to be increased, of one or more increments thereto which bring the total up to the annual level finally determined to be proper by the U.S. Government. While advice as to a base figure and increments thereto does not constitute an obligation in the technical sense, it does represent a kind of international commitment and, in addition, becomes an important basis for planning and budgeting by the prospective recipient. Subsequently, allotments are made and procurement authorizations are issued against these allotments. The procurement authorization normally constitutes the obligating document. The timing of allotments and of procurement authorizations for any country is affected by a great variety of considerations, the most important being related to the general foreign exchange requirements or foreign exchange program of the country in question. They are not evenly

spread among the twelve months of the year, and no single month can be taken as an appropriate base against which to determine the level during succeeding months. To say that obligations should not exceed the level in a particular month might, therefore, depending on the accidents surrounding that level, require the repudiation of international commitments, or, conversely, establish a rate for future monthly obligation in excess of available appropriations. This statement is borne out by reference to Appendix B. Although, on January 31, 1953, nearly $1 billion of the total defense support appropriation for Title 1 of $1.28 billion had been made the subject of international commitments, only $480 million had been obligated. Maintenance of the January rate of obligation during the succeeding five months would therefore have entailed, to mention the least of the consequences, the repudiation of international commitments of perhaps $330 million, and a failure to take care of other urgent requirements which, for one reason or another, had not then yet become firm international commitments.

(4) *The TCA Program*—Under TCA programs, obligations are made in a number of different ways, none of which (except those for certain types of personnel or training in countries where programs have stabilized) reflect themselves in even monthly rates of obligation. On the contrary, a very substantial portion of all obligations are made through program or project agreements with foreign governments, or by contributions to joint funds, and these acts of obligation are not spread uniformly throughout the year. Such obligations result in large measure from international negotiations, the timing of which is [illegible], and the January level, or the level for any other month, may be very high or very low in terms of a rate which, if projected evenly throughout the year, would utilize the full amount appropriated. It therefore represents a meaningless norm against which to make judgments about the appropriate total of obligations during the balance of the fiscal year or about the desirable monthly level of obligations during each [*such?*] period. It should also be noted, in the case of TCA programs, that in certain countries a program is newly authorized, or in any event is newly getting under way, and, as such, unless the very nature of the program itself were to be revised, must necessarily be the subject of somewhat increased obligations.

I believe the foregoing analysis of the major MSA operations indicates two things which have been of overriding importance in the review by this office and the participating agencies of the FY 1953 program: *first*, that many of our obligations result from prior international commitments, and that failure to make such obligations would represent a violation of those commitments and have the most profound political and economic consequences abroad; and, *second*, that the nature of the component programs is such that the obligation level in any given month often bears little relation to the annual program level and cannot be used intelligently as a norm against which to determine the proper yearly total or the subsequent monthly level of obligations. The real question has had

to be whether it made sense, and whether it was possible, given the history of commitments and obligations during the fiscal year to February 3, to reduce a total annual program from the level previously planned. This is the approach which we have taken. If, as to any component of the program, the decision to reduce can be made, then the obligation pattern for that program must be tailored to such reduction and not artificially [pegged?] by reference to a January rate that in no way relates to the problem.

II—Actions taken with respect to FY 1953 Programs

A. *As to personnel—*

By letters dated February 17, 1953,[4] the Departments of Defense and State and the Mutual Security Agency were given common standards and criteria by which to carry out, as to administrative personnel employed in the Mutual Security Program, the spirit of the instructions contained in your letter of February 3, 1953. These letters also (1) dealt with improved management as a key to greater efficiency and savings; (2) required, even as to "program personnel", the application of the criteria contained in your instructions in all cases where this would not require, pending a program review, a change in the level of program execution; and (3) established reporting procedures covering the implementation of the new policies wherever existing procedures appeared inadequate. Since I believe these letters speak for themselves, I attach copies thereof as Appendix C without further detailed description. Your office will of course periodically receive information relating to compliance with the instructions as and when such information is received from the participating agencies.

In this general connection, I believe I should mention at least two other significant actions which have been taken or are now in process. In the first place, we plan to move rapidly, once we have fully digested their reports, to make those reductions in personnel, and those savings from improved administration and operating procedures which have been suggested as possible by the Evaluation Teams which have recently returned from overseas. As you know, I have always felt that a major reduction in force in our missions abroad could only be intelligently effected after, and in accordance with the findings of, a thorough on-the-spot survey by a really competent group of experts. We will now decide, based upon the surveys already made, the extent to which the same or similar techniques should be employed to review the situation in countries which were not covered by the recent evaluation. In the second place, we have been intensively reviewing, in conjunction with Am-

[4] Not further identified, but see footnote 1, p. 572.

bassador Draper, the possibility of major personnel reductions in the Office of the Special Representative in Paris, and some such reductions have already been accomplished.

B. *As to programs—*

Immediately upon receipt of your letter, each participating agency was requested:

(1) to review, and report upon, the status of its respective programs, indicating specifically (a) the extent to which its appropriations therefor had been obligated and/or internationally committed, and (b) the degree to which the previously planned level of annual obligation could, within established national security policies, be reduced; and

(2) to submit, in conjunction with their FY 1954 program submissions, the completed forms that were asked for in your letter.

We have now received the required information and forms from all of the participating agencies except the Department of Defense. Since we have no reliable estimate as to when submissions from the latter department may be forthcoming, we are making, as I understand you desire, a partial report covering the balance of the program.

Attached hereto, as Appendix D, is a copy of a memorandum, dated February 6, 1953, covering the status of programs of the Mutual Security Agency as of February 3, 1953. I concur in the conclusions set forth therein as to those items which are indicated as constituting firm international commitments, the abrogation of which has, after review, appeared in most instances to be contrary to fundamental U.S. security interests. Moreover, since the date of that memorandum, it has become also apparent that the minimum requirements of MSA programs will probably dictate the complete, or substantially complete, obligation of all available funds before the end of this fiscal year, except (a) those tentatively planned for one country, the Philippines, where it will be possible, unless emergency requirements elsewhere intervene, to carry over at least $5 million, and perhaps more, of the new obligational authority which had previously been planned for utilization there by June 30, 1953, and, (b) possibly, a portion of those funds currently earmarked for basic materials development in Title III. While it is true, insofar as Title I is concerned, (1) that a few programs are not yet entirely firm (Section 118(k) programs for France, Italy and Austria, as examples), (2) that full utilization of funds presently reserved for a number of special activities, such as basic materials, may not occur, and (3) that a small amount has not yet been distributed among a number of competing demands, we face a situation in which the urgency of meeting certain as yet unfilled and unprogrammed requirements may prove to be so great (drought relief ir

Yugoslavia and additional aid to France, as examples) that not only would any possible savings resulting from the foregoing three sources be absorbed but, in addition, U.S. security interests would necessitate the transfer of some MDAP funds for defense support. Moreover, it has been assumed that the [$.15?] million which must, under the law, be reserved for Spain out of the total MDAP-defense support appropriation for FY 1953, would be funded, if FY 1953 funding is required, from MDAP appropriations. As a matter of current interest, since the figures on this subject have been constantly fluctuating, I attach hereto, as Appendix E, the latest summary of planned utilization of the Title I MSA appropriation.

Attached hereto as Appendix F is a memorandum from the Department of State, dated February 11, 1953, covering the status, as of February 1, 1953, of programs conducted under the supervision of the Department of State, exclusive of TCA programs. This memorandum indicates that, as of that date, because of either international commitments or requirements, reductions in previously planned FY 1953 programs did not appear possible except tentatively as follows: (1) *UNKRA*—$44 million, an amount which it would be necessary to carry forward into FY 1954 to meet commitments undertaken in FY 1953; (2) [illegible]—$.7 million; and (3) *Ocean Freight subsidies*—$.26 million. This office concurred in that conclusion, and believes that subsequent developments have not materially altered this picture or indicated that further savings might be effected. You should note, moreover, the statement contained in Appendix F with respect to requirements (subsequently adjusted downward in one case) for supplemental funds to cover amounts authorized, but not appropriated, for [*UNTA*?] and UNICEF.

Attached hereto as Appendix G, is an analysis (prepared in this office on the basis of materials submitted by TCA) of the status of TCA programs, other than the program for Israel, as of the beginning of February, 1953. Since each one of the TCA programs represents a different type of problem, the details of which are inappropriate for discussion in this letter, my staff would be glad to inform your representatives of the premises on which this analysis was based, as well as to explain the factors which, even at the end of January, made the status of certain funds in the "balance" columns very uncertain. Today, some eight weeks since this analysis was prepared, it seems probable, due to certain lags in the planned hiring of technicians, that, without violating international commitments, it may be possible to save, and carry over into FY 1954, several million dollars of the total amount shown in the "balance" column on the summary sheet. In the case of Israel it is clear, as

you have been advised by separate memorandum, that the entire amount appropriated is required for obligation in this fiscal year.

There are also attached, as Appendix H, the forms, as prepared by the Mutual Security Agency and the Department of State, which your letter requested. While, in general, insofar as FY 1953 is concerned, the figures contained therein are reconcilable with those available to this office and, in addition, consistent with the statements contained in the previous paragraphs, certain minor discrepancies will be noted. These discrepancies result from small differences in judgment as to the amounts which can effectively be obligated, and should be obligated, for several programs during the balance of FY 1953.

In concluding this section I should state that this office, as well as the participating agencies, have been governed in our review by a number of considerations that cannot be stressed too often and which have made inadvisable decisions which, under other circumstances, might have been entirely practical.

In the first place, we have been faced, as previously indicated, by the existence of international commitments which, on February 3, 1953, covered the great bulk of funds available for defense support and economic aid and, in a less precise fashion, most of our military assistance money as well. In my opinion, the abrogation of any of these commitments would have been, and still remains, unwise, and I reach this judgment irrespective of whether one should conclude, in retrospect, and I think would seldom be the case, that the commitments should not have been made in the first instance.

In the second place, and probably of paramount importance, has been the fact that pending a review of all our national security policies and objectives, and of the priorities to be accorded each, there have been no standards which could serve as guideposts in redirecting or sharply reducing programs which were, at least when they were formulated, directly responsive to national security policies and objectives which then existed. Therefore, except where increased efficiency or operating and personnel savings have been involved, we have been confronted with the dilemma posed by two alternative courses of action; first, to run the risk of creating a future expenditure level and pattern which might be slightly more difficult to cope with from a fiscal standpoint than the level and pattern of expenditures which may ultimately emerge as an objective from the current NSC review; or, second, to incur the grave dangers implicit in the premature cutback of any program which, as a result of such review, it is decided should have been continued at previous levels. The first course has seemed far wiser in most cases since choice of the second course could result in irreparable damage to our national security. Certainly, there has appeared to

be no possible justification, in advance of new policies, for taking any action which would forfeit or slow the painfully achieved momentum of going programs or for accepting unnecessarily if previous policies and objectives should later be reaffirmed, the very serious political and economic consequences which might result from severe program retrenchments and from the apparent changes in U.S. foreign policy that such retrenchments would be likely to imply. The acceptance of consequences of this character must represent a conscious decision at the highest level of government and is, in fact, the very issue with which the National Security Council is seized today.

III—Actions taken with respect to the FY 1954 Program—

There have heretofore been transmitted to you, in accordance with the provisions of your February 3rd letter, new submissions prepared by the several participating agencies which cover all phases of a proposed Mutual Security Program for FY 1954. Each of these submissions is now complete with one major exception—the final recommendations of the Secretary of Defense—and several minor exceptions concerning which your staff is already fully familiar. We also believe that substantially all supplemental information requested by your staff has now been provided or will be within a few days. There only remains, therefore, with the foregoing exceptions, the submission of my own recommendations covering the Mutual Security Program in its entirety. These will be forthcoming as soon as I have received, and had the opportunity to study, the final views of the Secretary of Defense on the military assistance program, and been able to relate all of the submissions to the current review of the National Security Council.

Sincerely yours,

HAROLD E. STASSEN

PSB files, lot 62 D 333, "Psychological Strategy Board"

Memorandum for the President by the President's Advisory Committee on Government Organization [1]

WASHINGTON, April 7, 1953.

MEMORANDUM FOR PRESIDENT EISENHOWER

(Memorandum No. 14)

Subject: Foreign Affairs Organization

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[1] President Eisenhower established his Advisory Committee on Government Organization on Jan. 29, 1953, naming Nelson A. Rockefeller of New York as chairman. *Continued*

Introduction

The security and welfare of the Nation have become increasingly and critically dependent on the successful conduct of our foreign affairs in all its aspects: political, military, economic, and psychological. In the conduct of our foreign policies and programs, it is not enough simply to react to developments as they occur; it is imperative that all our material and intellectual resources and skills be harnessed to the formulation and execution of positive and effective efforts designed to achieve the National goals.

The organization of the Federal Government for this task can be materially strengthened.

The Committee considers it of the highest importance that the Secretary of State have sole responsibility (subject to the President) for the formulation and control of foreign policy and that he be freed from foreign program operations in order that he may concentrate on his primary function.

The foreign policy primacy of the Secretary of State should be maintained through clear Presidential mandate and through the President's consistent practice of employing the Secretary of State as the Executive's channel of authority on foreign policy questions. This relationship should, of course, be sustained on specific issues by the President.

At the same time, within the framework of foreign policy, the Secretary of Defense (subject to the President) should have clear primacy in the formulation and direction of military policy.

The Committee considers that to achieve this clarity of responsibility and to assure the proper coordination and execution of our foreign operations, it is essential that there be a single agency in which all foreign assistance and economic operations, to the greatest degree practicable, shall be centralized or coordinated, and that a similar consolidation be effected in the administration of the foreign information programs. These agencies should exercise their functions subject to foreign policy as determined by the Secretary of State, and military policy as determined by the Secretary of Defense.

Accordingly, the following steps are recommended:

Recommendations

Recommendation No. 1—Establish a new foreign operations agency, in which shall be centralized or coordinated the most important of the foreign assistance and economic operations of the

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The President subsequently discussed the purpose of this Committee in his first Annual State of the Union Message to Congress, Feb. 2, 1953; for text, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953*, p. 25. See also Eisenhower, *Mandate for Change*, p. 133.

United States, the head of which should be appointed by and be administratively responsible to the President, and should report jointly with the Secretary of State to the President where matters of foreign policy are concerned and jointly with the Secretary of Defense where matters of military policy are concerned. He should be a member of the National Security Council and the National Advisory Council.

At the present time, foreign assistance and economic operations are widely dispersed among numerous government agencies. The result is waste, confusion of purpose, and often ineffective action. The proposals contained in this memorandum are designed to improve this situation by centralizing or coordinating in a single agency, so far as practicable, the most important of our foreign assistance and economic operations.

The Committee suggests that the new agency be known as the "International Cooperation Administration". The Director for Mutual Security would prefer that it be named "Mutual Security Operations Administration".

Since the new agency would replace the Mutual Security Agency, this recommendation of the Committee would not result in an increase in the number of Government agencies.

The new agency would:

a. Formulate and administer the Government's foreign operating programs in the fields of economic aid, relief or assistance, technical assistance, and defense support; it would give continuous supervision and general direction to the formulation and execution of military assistance programs; and it would present the program budgets to the Bureau of the Budget, the President and the Congress.

b. Be responsible for the procurement of defense materials in foreign areas and for materials development activities in such areas.

c. Under the coordinating authority of the National Advisory Council, administer the loan activities now vested in MSA.

d. Cooperate with the Department of Commerce in domestic activities for promoting private overseas investment and for stimulating international trade, as provided in the MSA and TCA legislation.

e. Exercise the authority now vested in MSA over counterpart funds.

f. Exercise the foreign claimancy function now vested in MSA and the Office of International Trade. (For Department of Commerce dissent on this recommendation, see 2d below.)

Recommendation No. 2—Transfer to the new agency (or, where appropriate, to the head of the new agency) the following:

a. The powers and functions now exercised by the Mutual Security Agency (except for foreign information functions, which are dealt with in Recommendation No. 4) and the

functions vested in the Director for Mutual Security by statute or Executive Order.

The responsibility for the programs of economic and technical assistance, and for the continuous supervision and general direction of assistance programs, including military assistance programs, now assigned to the Director for Mutual Security under the Mutual Security Act and the Mutual Defense Assistance Act, would be taken over by the new agency.

The head of the new agency would take over functions now exercised by the Director for Mutual Security under statutory authority or Executive Order, including responsibilities with respect to the following:

(1) Continuous supervision and general direction of all foreign military, economic, and technical assistance programs.
(2) Preparation and presentation to Congress of the foreign military, economic and technical assistance programs.
(3) Preparation of the reports to Congress covering operations in furtherance of the purposes of the Mutual Security Act.
(4) The development and administration of programs of assistance designed to sustain and increase military effort in foreign countries.
(5) The provision of equipment, materials, and services for carrying out mutual defense support programs.
(6) The provision of economic assistance to nations for which the United States has responsibility as a result of participation in joint control arrangements.
(7) The guaranty of investments in connection with approved projects.
(8) The initiation of projects for the increased production of materials in short supply.
(9) The approval of the use of counterpart funds.
(10) The responsibilities presently assigned to the Director for Mutual Security with respect to the Battle Act. Study should be given to the question whether additional aspects of economic defense should be centered in the new agency.

The transfer of the programs and functions referred to above could be accomplished by Reorganization Plan or by legislation.

The authority and responsibility for executing the Government's program for relief and resettlement of refugees coming into Israel and for operating the escapee program were assigned to the Director for Mutual Security by Executive Order 10300[2] and have been delegated by the Director for Mutual Security to the Secretary of State. These authorities and responsibilities should be revested in the head of the new agency by administrative action.

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[2] See footnote 2, p. 460.

New authorizing legislation for the Mutual Security Program must be obtained prior to June 30, 1953. In the new legislation, the present position of the Director for Mutual Security in the Executive Office of the President should be abolished.

b. The powers and functions established in the Act for International Development and exercised by the Technical Cooperation Administration, the statutory functions of the Administrator for Technical Cooperation, and the statutory functions vested in the Institute of Inter-American Affairs by the Institute of Inter-American Affairs Act.

Authority is provided under the Act for International Development for bilateral technical cooperation programs relating to economic development, and for participation in, or contribution to, multilateral technical cooperation programs of this nature carried on by the United Nations, the Organization of American States, their related organizations, and other international organizations. Responsibility for these programs was assigned by the President to the Secretary of State, who established the Technical Cooperation Administration as the agency for planning, executing and evaluating the programs authorized under the Act. Most of the projects undertaken by the TCA have been farmed out to other Government agencies for implementation. The new agency should immediately take steps to establish effective control over these programs.

The statutory functions now vested in the Administrator for Technical Cooperation should be transferred to the new agency.

The Institute for Inter-American Affairs is a Government corporation authorized to engage in technical programs and projects in the other American Republics, especially in the fields of public health, sanitation, agriculture and education. The Institute is the operating agency of the TCA in Latin America, for programs in these fields.

The law creating the Institute provides that its Board of Directors shall be appointed by the Secretary of State. The Committee recommends that provision be made for transferring from the Secretary of State to the head of the new agency the authority to appoint the Institute's Board of Directors. Pending such change, the Secretary of State would have authority under the present law to appoint to the Board individuals recommended to him by the head of the new agency.

The transfers included in this recommendation (except for the change in the authority to appoint the Board of Directors of the Institute of Inter-American Affairs, and the transfer of the statutory functions of the Administrator of the TCA to the head of the new agency, which must be done by legislation or by Reorganization Plan) can be accomplished by Executive Order.

c. Appropriate responsibilities and functions, as stated below, with respect to the U.S. participation in economic aid, technical assistance and relief programs of international organizations.

To the extent not covered by Recommendation 2b. above, the Secretary of State should assign to the new agency the responsibility for the development of the U.S. position on the place, within the total U.S. assistance program, of multilateral economic aid and technical assistance programs carried out through international organizations; for justification of such multilateral programs before the Bureau of the Budget and Congress; for reviewing such multilateral programs and advising the Department of State thereon; for overseas coordination between the operations of the U.S. bilateral assistance programs and the operations of multilateral assistance programs; and for the allocation of funds to the Department of State for U.S. contributions to such programs, including the Technical Assistance Programs of the U.N. and of the Organization of American States (OAS); the United Nations International Childrens Emergency Fund (UNICEF), the United Nations Relief and Works Agency (UNRWA), the United Nations Korean Relief Agency (UNKRA), and the Intergovernmental Committee for European Migrants (ICEM).

The Department of State would continue to be responsible for U.S. policy on the role of economic aid and technical assistance activities in the programs of the international organizations; for the presentation, with the assistance of the new agency, of U.S. positions on these assistance programs of international organizations; for representation of the U.S. in the international organizations; for maintenance of relations with headquarters staffs of the international organizations, with the participation of the new agency in these assistance matters; and for the control of U.S. contributions to international organizations for these assistance programs.

Authority and responsibility for U.S. participation in the UNRWA for Palestine Refugees are now vested in the Secretary of State pursuant to the United Nations Palestine Refugee Aid Act of 1950. The transfer of responsibility for this program to the new agency could be accomplished by legislation or by Reorganization Plan. Authority and responsibility for U.S. participation in the UNICEF and in the ICEM have been delegated to the Secretary of State under Executive Order 10300. Appropriate responsibilities in respect of such programs could be shifted to the new agency by an amendment of that Order.

d. The foreign claimancy functions presently exercised by the Office of International Trade, for United States exports subject to control.

At the present time this function is exercised by the Mutual Security Agency, for the MSA countries, and by the Office of International Trade in the Department of Commerce for all other countries. The transfer of this function as exercised by MSA is covered by Recommendation No. 2a above.

This transfer can be effected by administrative action or by Executive Order.

The Department of Commerce does not concur in this recommendation and recommends that the foreign claimancy function be concentrated in OIT alone.

e. The functions of the Defense Materials Procurement Agency relating to the development and the procurement of defense materials in foreign areas.

The assurance of adequate materials to supply U.S. industrial capacity is of major long-term significance to our national security and the dynamic growth of our economy. Placing responsibility in the new agency both for the development and the procurement abroad of materials in short supply will make possible a more active effort in this field and will enable the new agency to promote foreign development along lines that will give the United States a full return for the assistance rendered.

The responsibility for the overseas procurement of defense materials, and for stimulating increased production of such materials, has been exercised in the past, in large part, by the Defense Materials Procurement Agency.

The programming of defense materials procurement will be carried out in the Office of Defense Mobilization. In line with the present recommendation, the General Services Administration would handle domestic procurement of defense materials and in certain situations might act as the contracting agency for the new agency for materials produced abroad. The Office of Defense Mobilization should organize a committee representing the various interested departments and agencies, including the new economic agency, General Services Administration, the Department of Commerce, etc., to develop programs that will fulfill adequately our national needs.

This recommendation can be carried out by Reorganization Plan or by legislation.

f. The authority to correlate private programs with Governmental programs in the field of foreign relief; to maintain a registry of organizations in this field; and the authority to pay ocean freight charges on shipments of relief supplies, now exercised by the Department of State.

The Advisory Committee on Voluntary Foreign Aid was created and authorized to perform the first two functions by letter of the President of May 14, 1946, and has been carrying on its activities in the Department of State. Payment of ocean freight charges was authorized in Section 535 of the Mutual Security Act of 1951. Authority over this program was delegated to the Department of State by Executive Order 10300 as amended by Executive Order 10368.[3]

This transfer would require a new Presidential letter and Executive Order.

Recommendation No. 3—Appropriations for foreign aid, including military assistance, and for materials procurement abroad, should be made directly to the President who should then delegate responsibility to the head of the new agency for the allocation of the funds in accordance with programs formulated as provided in this memorandum.

Since the head of the new agency would be responsible for the coordination of all foreign economic programs and for the continuous supervision and general direction of programs formulated as provided in this memorandum which are carried out by other departments and agencies of the Government (as in the case of the military assistance program), he should have control over the allocation of the funds, such allocation to be made in accordance with such programs. Appropriating such funds to the President, in the first instance, would provide maximum flexibility.

[Here follow Recommendations 4 and 5 dealing with proposed establishment of a new foreign information agency. These recommendations are printed in volume II.]

Recommendation No. 6—Organize the structure of the foreign economic operations agency and of the foreign information agency so that their operations will be responsive to foreign policy determination by the Secretary of State and to military policy determination by the Secretary of Defense.

a. At the Washington level, the line organizations of the two operating agencies should be organized as far as possible on a common pattern with those of the Department of State, with the sub-divisions of each dealing with parallel areas of the others.
b. Regional staffs should be established only in cases where there is a regional organization or multilateral activity of sufficient importance to warrant the establishment of a diplomatic mission.
c. At the country level the field staffs of the agencies should be organized in such a manner as to provide for effective foreign policy direction and coordination of their operations by

[3] Executive Order 10368, dated June 30, 1952, is printed in 17 *Federal Register* 5929.

the United States Mission Chief (The Ambassador or Minister). The field staff of the economic agency would perform the major economic staff assignment in the development of country programs and in estimating economic capabilities and requirements.

The Secretary of State, and the Secretary of Defense, as appropriate, should have authority and responsibility to review plans and policies relative to military and economic assistance programs and foreign information programs, and legislative proposals of the foreign economic operations agency and the foreign information agency, to assure that, in their conception and execution, such plans, policies and proposals are consistent with and further the attainment of foreign policy and military policy objectives.

The heads of the new agencies should furnish information to the Secretaries of State and Defense in such manner and form as may be agreed between the head of the agency and the Secretary concerned to insure that the programs of the agencies and the implementation of such programs conform with foreign policy and military policy objectives.

To assure to the new economic agency its proper role with respect to the coordination and direction of the military assistance programs, the Secretary of Defense would be required to keep the agency currently informed on the status of such programs, including military end item procurement and deliveries, both domestic and offshore.

Recommendation No. 7—Executive Order 10338,[4] relating to overseas personnel relationships, should be extended to cover the representatives of the new economic and information agencies, and when amended should be supplemented as stated below.

Executive Order 10338 defines the authority of the Chief of Diplomatic Mission (Ambassador or Minister) to coordinate the activities of United States personnel in his area who are engaged in carrying out programs under the Mutual Security Act and provides that he shall exercise general direction and leadership of the entire effort. This Order should be amended to cover the representatives of the new economic and information agencies, and when amended should be supplemented as follows:

a. The Chief of the Diplomatic Mission would have the authority, through appropriate official channels, to effect the withdrawal of U.S. personnel in his area;

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[4] Executive Order 10338, dated Apr. 4, 1952, dealt with coordination procedures under Section 507 of the Mutual Security Act of 1951. It is printed in 17 *Federal Register* 3009.

b. The Chief of the Diplomatic Mission shall be kept fully and currently informed, as he desires, by all U.S. representatives, including the representatives of the new economic and information agencies and the chiefs of military assistance advisory groups, on all matters, including prospective plans, recommendations, negotiations, and actions, relating to the programs of such agencies; and

c. The Secretary of State should have the right to veto the proposed appointments of the chief representatives abroad of the foreign economic and information agencies.

The Committee strongly recommends that at the country level, where mutually agreed among the agencies concerned, there be an integration of personnel performing related functions under a single top official, as is now the case where the Chief of the MSA Mission also performs the duties of the Counsellor of Embassy for Economic Affairs, or where the Public Affairs Officer directs the foreign information activities of the MSA and the U.S. International Information Administration.

Recommendation No. 8—The Secretary of State should retain his position on the NAC to assure that the foreign loan policies of the U.S. are consistent with and further the attainment of U.S. foreign policy objectives.

The foreign policy responsibility of the Secretary of State in matters involving loans and credits is of equal importance to his responsibility in matters involving grants. They represent alternative forms of financial assistance designed to implement foreign policy.

Reorganization Plan or Legislation?

Many of the above recommendations, it will be noted, can be carried out either by Reorganization Plan or by legislation. The decision as to which course shall be followed, if the recommendations are approved, is one of considerable political importance. The advantages and disadvantages of each course may be summarized as follows:

The Reorganization Plan approach would have the following advantages:

1. It would enable the President clearly and specifically to set forth the organizational arrangements which he desires for the administration of foreign affairs and programs.

2. The Reorganization Plans would become effective unless rejected by a Constitutional majority of either House. While the Plans could be rejected in their entirety, they could not be amended as in the case of legislation.

3. Responsibility of the Administration for the reorganizations would be clearly fixed.

4. The Reorganization Plan procedure (if the plans are submitted promptly) might be a quicker method of putting the recommenda-

tions into effect, since it would undoubtedly take more than 60 days to obtain legislation.

The principal advantages of proceeding by legislation are as follows:

1. Legislation must be requested, in any event, for certain basic authorities under the Mutual Security Act which expire on June 30, 1953, and must be renewed.
2. This has been the traditional method of determining organizational structure in the field of foreign affairs and might be preferred by the Foreign Affairs and Armed Services Committees. In the last two years the committees which handle these programs have shown a concern about organization at least equal to their concern about the magnitude of the programs and are therefore likely to desire to consider all aspects of these programs at one time.
3. It has been suggested that a more sympathetic consideration of Administration proposals concerning organization for foreign affairs would be given by the legislative committees than by the Government Operations Committees.

If the legislative leaders concur, the Committee believes that it would be preferable for the President to effectuate the contemplated reorganization by Reorganization Plan.

Before reaching a decision on this matter the President may wish to consult with the Secretaries of Defense and State, the Director for Mutual Security, the Director of the Bureau of the Budget and probably others among his advisors; and, after obtaining their views, with legislative leaders.

In the course of the Committee's study, the Departments of Agriculture and Commerce have raised certain issues which the Committee has not had time to explore thoroughly. These should be dealt with later.

Editorial Note

Following preliminary hearings in the House of Representatives in March 1953 on extension of the Mutual Security program, President Eisenhower on May 5 recommended to Congress the passage of legislation extending the program. The basic purpose of the program was characterized by the President as "simply the long-term security of the United States living in the shadow of the Soviet threat." The President requested approximately $5,250 million for military weapons and support to aid the defense efforts of friends and allies, and approximately $550 million for technical, economic, and developmental purposes. The total request represented a reduction of approximately $1.8 billion from the Truman Administra-

tion's projected mutual security budget. For the text of the President's message, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953*, pages 256–259.

Both Secretary Dulles and Mutual Security Director Harold Stassen testified before a joint session of the Senate Foreign Relations Committee and the House Foreign Affairs Committee on May 5. During the course of his remarks, the Secretary stated that "A main objective of the program is to get the most security for the least cost". He also observed that a large part of the total amount was being requested for defense of the European area within the framework of the North Atlantic Treaty Organization, and that the most careful planning had gone into the formulation of the request. "There is no 'water' in this program to be squeezed out without taking greater risks than we believe are acceptable at the present time", he stated in connection with the European portion of the proposed program.

Stassen, in his testimony, stated that the program before the two Committees "represents the product of months of work by the National Security Council where each of our security objectives was carefully studied and its importance weighed in relation to the fiscal considerations" that so greatly concerned Secretary of the Treasury George Humphrey. The testimony of Secretary Dulles and Mutual Security Director Stassen is printed in the Department of State *Bulletin*, May 25, 1953, pages 736–742.

Senate hearings on the Mutual Security bill took place in the latter half of May. Those hearings are printed in U.S. Senate, *Hearings on a bill to amend the Mutual Security Act of 1951*, May 15–29, 1953, 83d Cong., 1st sess. The earlier House hearings are printed in U.S. House of Representatives, *Hearings . . . Mutual Security Act Extension*, March 1953, 83d Cong., 1st sess.

On May 27, President Eisenhower reduced his initial request by $354 million. On June 16, the House Foreign Affairs Committee reported H.R. 5710 authorizing $5 billion. Subsequently, the full House passed the bill after rejecting all amendments proposing further reductions but agreeing to an amendment by Representative Fulton (R.-Pa.) requiring disposal of surplus agricultural commodities wherever possible. The Senate version of the Mutual Security bill, approved on July 1, authorized a grant of $5.3 billion. A conference report fixing the final Mutual Security appropriation was approved July 13 by both Houses.

MSA-FOA Director's files, FRC 56 A 632, box 1, "Bureau of the Budget 1953"

The Director of the Bureau of the Budget (Dodge) to the Acting Director of Mutual Security (Rand) [1]

WASHINGTON, May 26, 1953.

MY DEAR MR. RAND: The results of the 1954 special budget review fall substantially short of the administration's budgetary objectives.

Accomplishment was limited by the short time within which the review had to be made, the inherited commitments, the inflexible requirements of legislation controlling many programs of substantial cost, and the review taking place coincident with the problems of establishing new administrative organizations. Consequently the reductions which it was possible to propose to Congress represented only the first estimate of what can be accomplished and cannot be accepted as satisfactory goals for actual results in the 1954 fiscal year.

To achieve the budgetary objectives, every possibility of further reductions in expenditures must be explored. Actual expenditures for 1954 have to be brought well below the levels contemplated in the revised budget, and projected expenditures for fiscal year 1955 will have to be reduced still more. The job has only begun—it is not done.

Judgment on progress will be predicated on progressive reductions in the rate of expenditure and the level of government employment. These two measures of accomplishment will be receiving constant public attention.

In the policy letter of February 3, 1953,[2] each department and agency head was asked to consider eliminating all unnecessary programs and reducing or holding the remainder to minimum levels. It is essential that you give this review your active and continued personal attention.

Further substantial savings primarily will result from the continuous examination of existing programs and activities in terms of elimination, consolidation, and simplification. There are many areas in which immediate administrative action can be taken to accomplish changes resulting in reductions in expenditures where no change in existing legislation is necessary. There are others in which changes can and should be made to accomplish budgetary savings that will require changes in legislation. In the latter case, proposals for these changes in legislation should be submitted to

[1] A handwritten notation on the source text indicates it was circulated to Rand and Ohly.

[2] *Ante*, p. 569.

the Bureau of the Budget as promptly as possible for appropriate clearance.

The results of the initial review of the fiscal year 1954 budget should be used to the maximum extent possible in preparation of the fiscal year 1955 budget estimates. In the review, many areas of future savings were identified which could not be made immediately effective because they will require negotiation not possible within the time limits involved or require changes in legislation. Action to implement these possibilities should receive prompt consideration and there should be added to them any further possibilities which have been or can be developed.

You are reminded that under the normal budgetary process the preparation for development of the fiscal year 1955 budget will begin immediately. This will include an appraisal of the projected budgetary situation, a determination of objectives, the tentative assumptions and policies related to their accomplishment, and the analyses preliminary to establishing fiscal year 1955 ceilings for new obligational authority and expenditures. These are prepared for submission to the President as a preliminary to advising heads of the departments and agencies of the considerations governing the preparation of their fiscal year 1955 budget.

Sincerely yours,

JOS. M. DODGE

Editorial Note

In a Special Message to Congress of June 1, 1953, President Eisenhower transmitted Reorganization Plan No. 7 of 1953 relating to the establishment of the Foreign Operations Administration. In a separate message to Congress on that day, the President stated that his aim in establishing the new agency was "to centralize further the foreign assistance and related economic responsibilities" of the Executive Branch of the United States Government. In implementing this reorganization, he continued, "I am taking certain administrative actions. These include the transfer from the Secretary of State to the Director of the Foreign Operations Administration four responsibilities: the administration of the Act for International Development; assistance to private foreign relief organizations; programs for aiding persons who have escaped from Communist areas; and operating functions with respect to United States participation in the United Nations Technical Assistance Program, the United Nations International Children's Emergency Fund, the United Nations Korean Reconstruction Agency, and the Intergovernmental Committee for European Migration." He further stated

that "Reorganization Plan No. 7 of 1953 provides for abolishing the offices of Special Representative in Europe and Deputy Special Representative in Europe, as authorized by section 504 of the Mutual Security Act of 1951, as amended. I am establishing a new United States mission to the North Atlantic Treaty Organization and European regional organizations. The chief of the mission will report to and receive instructions from the Secretary of State. The mission will include representatives of the Secretary of Defense, the Secretary of the Treasury and the Director of the Foreign Operations Administration."

In further explanation of his actions and aims, the President circulated a "Memorandum on the Organization of the Executive Branch for the Conduct of Foreign Affairs", dated June 1, 1953, to the Heads of all Executive Departments and to the Director of Mutual Security. In this memorandum, the President stated, *inter alia*, "The over-all foreign affairs reorganization which I desire to achieve is designed to emphasize the primary position of the Secretary of State within the executive branch in matters of foreign policy. . . . It will be my practice to employ the Secretary of State as my channel of authority within the executive branch on foreign policy. Other officials of the executive branch will work with and through the Secretary of State on matters of foreign policy. . . . The Secretary of State, the Secretary of Defense, and the Secretary of the Treasury, as appropriate, shall review plans and policies relative to military and economic assistance programs, foreign information programs, and legislative proposals of the Foreign Operations Administration and the United States Information Agency [established simultaneously with the FOA under Reorganization Plan No. 8] to assure that in their conception and execution, such plans, policies and proposals are consistent with and further the attainment of foreign policy, military policy and financial and monetary policy objectives. The Director of the Foreign Operations Administration and the Director of the United States Information Agency will assure the concurrence or participation of the appropriate Secretary before taking up with me any policy matters of concern to that Secretary. The heads of these new agencies should furnish information to the Secretaries of State, Defense, and Treasury in such manner and form as may be agreed between the head of the agency and the Secretary concerned to insure that the program of the agencies and the implementation of such programs conform with foreign policy, military policy, and financial and monetary policy objectives. To the maximum feasible extent consistent with efficiency and economy, the internal organization of the new agencies should be designed to permit ready coordination with subordinate levels of the Department of State. This would suggest parallel

areas of responsibility for constituent units of the State Department and of the two new operating agencies wherever feasible. . . . The Director of the Foreign Operations Administration should take full advantage of the advice and assistance available in other agencies. He should coordinate his operations with related operations in other agencies. At the same time, I expect the Director of the Foreign Operations Administration to maintain full control and direction over all foreign economic and technical assistance programs rather than turn this responsibility over to other agencies."

The complete texts of President Eisenhower's Special Messages to Congress on the Organization of the Executive Branch for the Conduct of Foreign Affairs and the Transmission of Reorganization Plan No. 7 of 1953 are printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1953*, pages 342–349. The Memorandum on the Organization of the Executive Branch for the Conduct of Foreign Affairs is printed *ibid.*, pages 351–354.

MSA–FOA Congressional files, FRC 57 A 709, box 170

Memorandum by the Counselor of the Foreign Operations Administration (Eichholz) to the Director of Foreign Operations (Stassen)

CONFIDENTIAL [WASHINGTON,] June 8, 1953.

Subject: Termination Provisions of Mutual Security Legislation

As you know, present legislation provides for termination of the program on June 30, 1954, with authority to expend funds for an additional year if such funds were obligated before July 1, 1954 (this expenditure authority is one year shorter than the period which applies to normal appropriations).

Our bill[1] provides (a) for expiration of the program on June 30, 1958, and (b) that funds obligated before the termination date may be expended during the three following years.

In the course of my testimony before the Foreign Affairs Committee on Saturday, it became abundantly clear that Mr. Vorys was unalterably opposed to any part of this provision and would wish termination clauses of the present law to remain. His stated ground was that the Presidential documents on the reorganization plan[2] made a point of remarking on the present hodge-podge of legislation and that the President considered it essential that a complete re-write of foreign aid legislation be prepared for presentation to the next session of Congress. (Although he did not say so, this

[1] Reference is presumably to the Mutual Security Act of 1953. See the editorial note, p. 625.

[2] See the editorial note, *supra*.

part of the Presidential message was inserted at Mr. Vorys' insistence.) Mr. Vorys said that by keeping the present termination provisions, he would be assured that such rewritten legislation would be presented without fail.

This is an extremely serious matter, as I pointed out to the Committee Saturday.[3] Most contracts for long-lead items which we are planning to let during fiscal '54 will provide for all or the major part of deliveries to be made after June 30, 1955, the present expiration date of our authority to make expenditures. The Hawker-Hunter contract is an outstanding example. If the termination provisions are not amended, if contractors are at all willing to undertake the risks of cancellation, we will have to pay a very substantially higher price because of the risk of cancellation. In addition, the United States would stand to lose progress and other payments made prior to cancellation.

This might well be a subject which should be mentioned to Mr. Vorys at the breakfast I understand he will have with the President tomorrow morning. For purposes of our immediate problem, it would not be necessary to have both the 1958 date and the three year expenditure provision, but it would be necessary to have one or the other.

[3] June 6.

Eisenhower Library, White House Central files, 1953-61

Memorandum by the Director of Foreign Operations (Stassen) to the Special Assistant to the President (Persons)

CONFIDENTIAL WASHINGTON, July 3, 1953.

Subject: Mutual Security Appropriations for Fiscal Year 1954

1. The Appropriations Committees' hearings on the Mutual Security Program for 1954 will begin on Monday, July 6th, in the House and on Thursday, July 9th, in the Senate.[1] We are prepared for thorough detailed documented presentation to both Committees.

2. The most difficult issues are the following:

a. The general resistance which springs from understandable concern over the total level of U.S. appropriations, irritation at delay in ratification of EDC,[2] and anger at criticism of American positions by European and Asiatic statesmen.

[1] The hearings under reference are printed in U.S. House of Representatives, *Mutual Security Appropriations for 1954*, July 1953, 83d Cong., 1st sess. and U.S. Senate, *Mutual Security Appropriations for 1954*, July 1953, 83d Cong., 1st sess.

[2] For documentation on U.S. interest in the ratification of the treaty establishing a European Defense Community, see vol. v, Part 1, pp. 571 ff.

b. Disinclination to appropriate for production contracts for aircraft and other items which cannot be produced and delivered for two or three years in view of the impossibility of foreseeing what the situation will be two or three years from now.

3. Detailed difficulties are as follows:

a. Opposition to providing $200 million of support for the U.K. when U.K. has made a tax reduction. (3%).

b. Opposition to providing $110 million for India in view of India's attitude in the UN.

c. Disagreement over the approach to the Arab-Israel situation with partisans on each side, and some tendency to say a "plague on both houses"—and appropriate no money for the area.

d. Impatience with France and an inclination to cut down sharply on the recommendations for support of the French effort in Indochina.

4. The President and you are well aware of the reasons in support of the President's 1954 program in these matters. I simply restate some of the salient points to pull them together in this memorandum.

a. Western Europe is of such crucial importance in the world balance industrially, psychologically and militarily, that regardless of impatience or complexity of problems, we must follow through with determination. Our faltering could cause a tragic loss of impetus that could never be regained. The U.S. as the leader cannot fall back to wait to see what Europe does. If the leader hesitates, the odds on the loss of the entire cause becomes seriously adverse.

b. If India falls through economic distress and Communist infiltration, all of Asia becomes much more difficult to hold. The amount programmed of $110 million is less than half of the $250 million recommended by Truman and Bowles. The Administration believes by very careful management this reduced amount can see India through but to further cut it would be taking a very grave risk.

c. The strategic location and resources of the Near East, regardless of individual feeling on either side of the Arab-Israeli dispute, is such that we cannot turn our backs on the region. We should follow through in a moderate, carefully administered, program to build economic stability and gradually increase military strength, while retaining essential U.S. air base rights and access to oil resources in the area.

d. It is in the U.S. interest to have a strong, economically sound, Britain. They are carrying a heavy world-wide commitment of defense forces in strategic locations. The fact that this conservative government has turned the adverse tide and is beginning to show some evidence of a more favorable economic build-up should not cause us to drop aid too abruptly. The program for 1954 drops from $400 million down to $200 million as a phase out. It was carefully studied by the Secretaries of Treasury, Defense, State, and DMS. It would be penny wise and pound foolish to make further cuts and

prejudice this careful economic strengthening now being conducted by the British Government.

e. France is a problem but is in a crucial location both as respects Europe and Southeast Asia. We are endeavoring to bring about the constructive changes necessary for success for France in both Europe and Indochina. But we need the backing of Congress and the resources available from the Appropriations measure to have a chance to bring about these results.

5. In the overall situation, the East German riots, the Polish and Czech resistance are significant evidence that we may be on the edge of extremely favorable developments in the U.S. national interest, vis-à-vis the Soviet strength. We may also be within reach of developing German and Japanese units to take a part of the world security burden. This, above all, is not the time to handcuff U.S. efforts. Even though there is a feeling that money has been wasted in past years, this Administration should have, for the sake of the basic security of America, a full opportunity for this next fiscal year to carry out its careful, conservative, essential plans in the world situation.

If there is any further information you wish, be sure to let me know.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

SECRET WASHINGTON, August 11, 1953.
Issue No. 420

. . . . . .

Analysis of Provisions of Foreign Aid Legislation [1]

Just before adjournment of the first session of the 83rd Congress, three bills were passed which provide for foreign aid. One was the Mutual Security Appropriation Act, 1953;[2] a second was the supplemental appropriation bill which, in accordance with the President's request, provided for $200 million for Korean relief and rehabilitation out of savings in defense funds resulting from cessation of hostilities; and the third was an emergency famine relief bill which authorizes the President, within certain limitations, to furnish ag-

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[1] Further documentation on foreign aid legislation is in U.S. House of Representatives, *Mutual Security Legislation and Related Documents*, December 1953, 83d Cong., 1st. sess.

[2] Public Law 83-118, enacted July 13, 1953, signed by President Eisenhower July 16, 1953. For the text, see 67 Stat. 152.

ricultural commodities held by the Commodity Credit Corporation to countries suffering from famine.

Mutual Security Appropriation. The appropriation in the foreign aid bill totals $6.6 billion, of which approximately $4.5 billion is new money and $2.1 billion represents unobligated balances remaining from previous appropriations which may be used in the 1954 program. The breakdown of the program, as finally passed, follows:

	New Funds	Unobligated Balance
Military Assistance		
Europe	$1,860,000,000	$1,311,977,003
Near East and Africa	270,000,000	312,713,221
Asia and the Pacific	1,035,000,000	256,843,411
American Republics	15,000,000	50,723,170
Total Military Assistance	3,180,000,000	1,932,256,805
Mutual Defense Financing		
Europe	220,000,000	115,706,906
Formosa and Indochina	84,000,000	17,821,596
UK NATO Aircraft Production	85,000,000	——
French NATO Military Production	85,000,000	——
Indochina force support	400,000,000	——
Total Mutual Defense Financing	874,000,000	133,528,502
Mutual Special Weapons	50,000,000	——
Technical Assistance		
Near East and Africa	33,792,500	——
Asia and the Pacific	51,278,001	10,821,999
American Republics	22,342,000	——
Total Technical Assistance	107,412,501	10,821,999
Basic Materials Development	19,000,000	——
Special Economic Assistance		
Arab States, Israel and Iran		
Dependent Overseas Territories—Africa	147,000,000	——
Palestine Refugee Program	——	44,063,250
India and Pakistan	75,000,000	——
Total Special Economic Assistance	222,000,000	44,063,250
Multilateral Organizations		
Movement of Migrants	7,500,000	——

	New Funds	Unobligated Balance
Multilateral Technical Cooperation	9,500,000	——
International Children's Emergency Fund	9,814,333	——
Ocean Freight for Relief Shipments	1,580,166	244,834
UN Korean Reconstruction Agency	50,700,000	——
Total Multilateral Organizations	79,094,499	244,834

While the total amount lacks about $670 million of the Administration's reduced appropriation request, it is considerably more than the original figure passed by the House, and it is generally considered that the funds appropriated are adequate to do an effective job.

Reaction Abroad to Cuts. During Congressional consideration of both the authorizing and appropriation legislation, considerable concern was manifest abroad about inadequate aid and about future US aid plans. This was compounded in Europe because of the amendment in the House version of the authorizing legislation which provided that not less than 50% of the funds authorized for military assistance to Europe in fiscal 1954 be made available only for the European Defense Community. However, the bill as finally passed provides that 50% of the equipment and material procured from fiscal 1954 military assistance funds for Europe shall be transferred to the European Defense Community or to the countries which become members thereof, unless the Congress, upon Presidential recommendation, provides otherwise. Thus, should EDC not come into being and should the President consider that conditions might nevertheless warrant release of equipment and materials earmarked for the organization, Congress would reconsider the provision. Meanwhile, orders for equipment and materials may be placed under these funds but delivery of the assistance will not take place until the organization is formed. Because of the time required between placement of orders and their manufacture and delivery, the amendment will probably not have an appreciable effect on most items for a year or eighteen months. Moreover, this limitation applies only to equipment and materials and not to training and other services. We have taken the position with the EDC countries that this provision should not cause concern to Eu-

ropean countries but be regarded as US interest in European unity and in the effective defense of Europe.

As to concern abroad about future US aid plans, it is true the authorizing legislation did not extend the termination date of June 30, 1954 for the program as requested by the Executive Branch. However, the legislation did extend the terminal date for deliveries and liquidation to June 30, 1956 for economic assistance and to June 30, 1957 for military assistance and issuance of investment guaranties. Termination dates are elements of US legislation and do not necessarily imply future US policy. The June 30, 1954 date was maintained, according to the conference report, not because it was believed that all forms of assistance to other nations would finally terminate on that date, but because it was considered necessary that there be a basic overhauling of the legislation dealing with foreign aid before that date.

The cut in multilateral technical assistance, while not large in size, is especially serious because of its probable impact on a highly-regarded UN program and because it is damaging to US prestige in the United Nations. The Administration had requested $13,750,000 for this purpose for fiscal 1954 and $4,595,812 as a supplemental appropriation for 1953. We had pledged the latter amount for the 1953 UN program, making the pledge contingent upon Congressional appropriation of funds. As finally passed, the bill appropriates only $9,500,000 for fiscal 1954 and eliminates entirely the supplemental appropriation. The cut came at an extremely bad time as the Economic and Social Council was convened in Geneva, where news of this reduction in one of the UN's most successful programs spread like wildfire. Moreover, it came immediately after announcements by the USSR and Polish delegates that, for the first time, their governments would make a contribution to the UN technical assistance program. In view of the legislative history, it may be possible to fulfill the 1953 program and for the Administration to request a supplemental appropriation for the amount authorized but not appropriated.

Transfers of Funds. The authorizing legislation permits the President to transfer up to 10% of the total of funds for military assistance and defense support in Europe from one of these purposes to the other in that area, and to transfer 10% of the funds available for military or defense support and technical assistance in any one area to other areas to be used for the same purpose. Balances of prior appropriations may be included in the base on which such percentages are computed. The President is authorized to use $100 million anywhere for any purpose, if he determines that such use is important to the security of the United States, provided no more than $20 million is used for any one country.

Surplus Agricultural Commodities. Section 550 of the act provides that not less than $100 million and not more than $250 million of any mutual security appropriations for fiscal 1954 should be used, directly or indirectly, to buy surplus agricultural commodities. Legally it is possible under this provision to use military end-item funds as well as economic assistance and defense-support funds. The Mutual Security Appropriation Act requires that, of this amount, at least $100 million come from funds other than those authorized by Section 541 (economic assistance and defense support in Europe, Formosa and Indochina). Agricultural commodities sold under this section should not displace or substitute for "usual marketing of US or friendly countries" to that country. The commodity would be sold to the country for local currency and, to the extent practicable, at maximum market price. Local currency funds thus received would be put into a special US account to be used in specified ways, with particular regard being given to use for military assistance, loans for increased production of items including strategic materials, grants to increase production for domestic needs, and purchases of materials needed for stockpile in the US, and goods or services that could be used for assistance to third countries.

Meanwhile, in a separate piece of legislation, Congress authorized the President to furnish emergency assistance to friendly countries in meeting famine or other urgent relief requirements, by using agricultural commodities which have been accumulated by the Commodity Credit Corporation under the domestic price support program. This aid may also be furnished to friendly, needy populations, without regard to the friendliness of their government, provided the commodities will be so distributed as to relieve actual distress among such populations. Such aid is limited to $100 million and the time limit for such programs is set at March 15, 1954. The cost of ocean transportation of such products will either be borne by the receiving country or come from its share of MSP aid.

Interagency discussions are now going on as to the implementation of both the legislation for emergency famine assistance and Section 550 of the Mutual Security Act.

Other Provisions. While the Benton and Moody amendments of previous foreign aid bills are omitted in the new legislation, the conference report reiterates the principles of the Benton amendment. It states that it is the policy of Congress to encourage the efforts of other free countries in fostering private enterprise, in discouraging monopolistic practices, and in the strengthening of free labor unions, and to encourage American private investment abroad.

Section 105 of the appropriation act provides that none of the funds nor any of the counterpart funds generated as a result of assistance may be used to make payments on the debts of any country, nor shall any of these funds be expended for any purpose for which funds have been withdrawn by any recipient country to make payment on their debts. This will be particularly relevant to Israel, where, in the past, mutual security funds have been used for refunding purposes.

The same section also provides that after September 1 none of the funds shall be used to make up any deficit to the European Payments Union for any nation of which a dependent area fails to comply with any treaty to which the US and such dependent area are parties nor shall any of the counterpart funds generated as a result of assistance under the act be made available to such nation. This was aimed at the problem which exists between the US and France with respect to treaty rights in Morocco. While it does not have any effect on funds that are already obligated for aid to France, it may affect counterpart generated by fiscal year 1953 funds in the event that some of the funds already in the pipeline are de-obligated and re-obligated. The Foreign Operations Administration still has not decided on the effect of this provision on counterpart funds and has requested a legal opinion from the Department on the treaty problem in Morocco.

A shipping provision in the appropriation act requires that insofar as practical steps should be taken to assure that at least 50% of the gross tonnage of commodities, procured within the US out of funds made available under the act and transported abroad in ocean vessels, is transported on US flag vessels to the extent such vessels are available at market rates.

The investment guaranty program was broadened in the hope of stimulating greater investor participation. The terms were extended to 20 years and guaranties can be made in countries not otherwise participating in the mutual security program. Such guaranties may be issued until June 30, 1957.

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740.5 MSP/8-2053

Memorandum by Thomas C. Schelling to the Deputy Director for Operations, Foreign Operations Administration (FitzGerald) [1]

CONFIDENTIAL [WASHINGTON,] August 20, 1953.

Subject: FY 1954 Programming

This memorandum summarizes the programming guidelines for FY 1954 with respect to MSA programs, developed at the meeting conducted August 17, 1953 by the Director of Foreign Operations.

Europe: Economic Aid Programs

MSA[2] will develop, in coordination with the State Department, programs for mutual defense financing in Europe within the amounts appropriated for that purpose, plus carryover, plus additional funds to be administered under Section 550 as described below. These programs will be subject to the following guidelines:

1. The East German food program in the amount of $15 million will remain a charge against Title I economic aid funds. The General Counsel is, however, being simultaneously requested to consider urgently whether part of this program can be financed under the Famine Relief Act.
2. The Technical Assistance Program will amount to $15 million; an additional $3 million will be held in reserve for possible increase in this program to a total of $18 million.
3. An Information Program of approximately $7 million has been discussed. Dr. FitzGerald is to consider this program further and make a recommendation as to the exact amount.
4. Total assistance to the United Kingdom will be $200 million. Of this, $85 million is separately appropriated for the aircraft program. Of the remaining $115 million, an amount of from $40 to $65 million will take the form of defense support, and an amount of from $50 to $75 million will take the form of surplus agricultural commodities administered under Section 550.
5. The program for Germany/Berlin (exclusive of the East German food program) remains as originally programmed at $15 million. The specific objectives and composition of this program have not been determined. Recommendations for the use of these funds will be worked out jointly between the Deputy to the Director for Operations and the Assistant Director for Refugees, Migration and Travel in coordination with the State Department.
6. In the event the surplus agricultural commodities program for the United Kingdom does not reach the upper limit of $75 million mentioned above, the difference for the United Kingdom is to be made up with defense support; and surplus commodity programs for other European countries may be developed, to meet defense

[1] Schelling was Officer in Charge of European Program Affairs in the Foreign Operations Administration.

[2] This reference and all further references to MSA in this document should read FOA.

support and economic aid objectives, up to a total of $75 million of such programs inclusive of the program for the United Kingdom. It will be assumed that surplus agricultural commodity programs in Europe, other than non-UK programs within that $75 million, will be used to meet objectives of the Title I military assistance program, not economic aid and defense support objectives in Europe.

7. Assistance to France out of funds available for mutual defense financing in Europe will be limited to the specific amounts appropriated, namely $485 million of which $400 million is to support the campaign in Indochina and $85 million is to finance certain types of equipment for French NATO ground forces.

8. It should be assumed for planning purposes that the several Spanish agreements will be signed and become effective on or about October 1, 1953, and that any further obstacles in developing and implementing Spanish programs will be no different from those encountered in initiating programs in any new country.

9. The Defense Department has under review the question of devoting further funds (including the $37.5 million of unobligated MSA funds specifically carried over for this purpose) to the Italian aircraft program. MSA should simultaneously consider with the Defense Department the techniques by which the $37.5 million will be furnished if a decision to give such assistance is reached.

10. MSA may recommend holding in reserve at this time some portion of the funds available to it for European programming. It should be assumed that the total of funds available for this purpose will be neither augmented nor reduced by transfer.

MSA should review counterpart procedures in light of Congressional attitudes (particularly as expressed in the report of the Senate appropriations Committee) and make recommendations to the Director as to whether and how such procedures should be revised, with particular regard to the release of funds on a project by project basis.

MSA, in coordination with the Department of Defense, should develop and recommend procedures for administering the special defense financing for France/Indochina, for French ground force equipment, and for British aircraft. MSA should also, in consultation with the General Counsel, recommend procedures governing the use of local currencies in the United Kingdom arising from the surplus agricultural commodities program for that country.

A series of additional programming and administrative matters resulting from new legislation or expressions of Congressional intent are being either considered by the Director or studied by the General Counsel.

Far East: Economic and Technical Assistance

The General Counsel is being requested to give a legal opinion as to whether all or any part of the $6.8 million of surplus funds for Formosa and Indochina can be utilized to augment the $62.1 mil-

lion specifically appropriated for the Title III area other than Formosa and Indochina.

On the assumption that these funds can be used in this manner, MSA Far East programs are to be developed, in coordination with the State Department, subject to the following guidelines:

1. Funds in the amount requested of Congress for defense support for Formosa and Indochina, namely $95 million (comprising $84 million in new funds and $11 million in carryover), should be programmed by MSA for this purpose, and MSA, in coordination with State, should make recommendations as to the distribution of the total. In making such distribution, account should be taken of the several suggestions in the reports of the two Appropriations Committees, but these suggestions should not be regarded as controlling.
2. It is the view of the Director that particular regard should be taken of the strong Congressional feeling regarding adequate aid for Formosa. In this connection, the possibility should be explored of using McClellan Amendment[3] authority for furnishing commodities to Formosa, additional to the regular Formosa program, the local currency proceeds of which could be applied towards purchases in Japan of products produced there and needed by other countries in the Pacific area under Mutual Security programs.
3. Of the $6.8 million Formosa-Indochina surplus, $2 million will be applied against regular program requirements for other Title III countries. This will permit initial programming against a $17 million ceiling for the Philippines and $5 million for Thailand.
4. In the event that a decision is reached to move forward with a special additional program for Northeast Thailand, consideration will be given to the possible diversion of funds for that purpose from the remaining $4.8 million in the Formosa-Indochina surplus.
5. No funds are to be earmarked for DOT's in the Title III area.

African DOT's and Basic Materials

Of the special economic aid funds for the Near East and Africa, amounting to a total of $147 million, $12 million should be earmarked for African DOT's, for initial programming purposes. MSA should proceed, in coordination with State, to develop a recommended program. If, as the year proceeds, it develops that the remainder of the $147 million fund cannot be effectively utilized for the purposes for which it is originally earmarked, consideration will be given to the possibility of transferring a small additional amount, perhaps $5 million to $10 million, for use in the African

[3] The amendment to the 1953 Mutual Security legislation introduced by Senator John D. McClellan (D.-Ark.) provided for additional U.S. financing of the program through a revolving currency plan which permitted recipient governments to exchange their currencies for U.S. dollars in order to purchase U.S. farm surpluses. The United States, in turn, would use the foreign currencies received to finance offshore procurement.

DOT's. Against this possible contingency, MSA is authorized to over-program for this purpose to the extent of $10 million.

In programming for the African DOT's, the Director emphasized that aid in this area should be furnished in such a way as to facilitate and encourage the expansion of private capital investment, and should also reflect a consideration of the long term needs of the United States in basic resources.

MSA should proceed, in coordination with TCA and the Department of State, to develop a recommended program for basic materials development within the figure of $19 million authorized and appropriated by the Congress.[4]

THOMAS C. SCHELLING

[4] A similar memorandum on fiscal year 1954 programming was sent to Frank Nash, the Assistant Secretary of Defense for International Security Affairs, over the signature of John Ohly on Aug. 20, 1953. A copy is in file 740.5 MSP/8-2053.

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103 FOA/8-2553

The Director of Foreign Operations (Stassen) to the Secretary of State

WASHINGTON, August 25, 1953.

DEAR FOSTER: In carrying out the President's Reorganization Plan No. 7 and implementing the President's Executive Orders Nos. 10458 of June 1 and 10476 of August 1 and letter of instructions of June 1, 1953,[1] I am contemplating a reorganization to take effect on October 1, 1953.

I am enclosing a tentative draft of an organization chart [2] and will welcome any suggestions which you may have upon it. It is anticipated that the four Regional Directors should have the same territory as the respective Assistant Secretaries of State, and thus facilitate a close working relationship at that point. There is some question whether Greece and Turkey, since they are members of NATO, should be administered by the European Region or by the Near East. Unless you take a different view, I propose to conform precisely to the State Department geographical organization for its Assistant Secretaries.

As of the same date, it is my plan to change the names of all of the MSA and TCA Missions and establish them all as United States Operations Missions. Their specific tasks will vary, but throughout the world we intend to emphasize the concept that we are carrying out a United States program under the foreign policy

[1] See the editorial note, p. 628.
[2] Not printed.

leadership of the Secretary of State rather than any emphasis on the program of a segment of the Government of the United States.

Sincerely yours,

HAROLD

700.5 MSP/9-1853

Memorandum by the Director of the Executive Secretariat (Scott) to the Acting Secretary of State

TOP SECRET WASHINGTON, September 18, 1953.

Subject: Informal Discussions on FY 1955 Foreign Aid
Tab A Near East (September 4)
Tab B Far East (September 4)
Tab C Europe and NATO (September 8) [1]

You will recall that the Secretary set up a series of meetings to discuss in general terms the over-all aid picture for FY '55. An analysis of the attached memoranda of these informal conversations reveals the following general conclusions and highlights:

(1) That FY '55 appropriations requests for economic and/or military foreign aid would be roughly the same or slightly higher than the FY '54 figure.

(2) That Congress has indicated tough sledding for requests for "giveaway" programs.

(3) Therefore, *generally* it might be advisable to separate in our thinking military, economic, and technical assistance programs and

(4) *Specifically*, that it might be feasible to have Defense assume budget responsibility for those aid programs which could be justified as being an *integral* part of U.S. defense.

(5) *But* that the Department should maintain the control of funds thus appropriated to insure proper allocation and flexibility.[2]

(6) That some consideration be given to the concept of a "soft loan" bank from which certain countries (India, Pakistan, and South American countries) might be able to acquire needed funds for economic development otherwise unavailable except through grant aid.

Mr. Nolting was directed to prepare, strictly from State Department sources, an analytical study[3] of the feasibility of including FY 1955 MDAP appropriations within the Defense budget.

W. K. SCOTT

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[1] For text, see volume VI.

[2] A handwritten notation on the source text, apparently signed by Acting Secretary Smith, indicates thorough agreement with points 2–5.

[3] Not further identified.

[Tab A]

Memorandum of Conversation, by Walter Trulock of the Staff Operations Section of the Executive Secretariat

TOP SECRET [WASHINGTON,] September 4, 1953

Subject: 1955 Foreign Aid—NEA

Participants: The Secretary
C—Mr. MacArthur
S/P—Mr. Bowie
NEA—Mr. Byroade
E—Mr. Waugh
S/MSA—Mr. Nolting
NEA—Mr. Gardiner

Mr. Byroade referred to the favorable action of the 83rd Congress on the NEA foreign aid program. He said that what was done with the money appropriated for FY 54 would determine whether or not Congress would act favorably on the FY 55 program. He felt that if the situation in Iran and Egypt could be stabilized, good progress could be made in the whole area. Mr. Byroade tabled a memo showing preliminary NEA projections on new authorizations for FY 55.

Military Assistance

a. Greece and Turkey

The Secretary asked why the Department should be responsible for recommending the level of military aid. He felt that the foreign military assistance program should be included in the Department of Defense budget. He said that in some cases the decision as to whether or not military assistance should be granted was more of a political decision than a military one, but in the case of Greece and Turkey he felt that Defense should have the primary responsibility for determining and justifying the size of the military program.

b. Iran

In response to a question from the Secretary, Mr. Byroade said that military assistance to Iran was both military and political. He said that, if the situation in Iran stabilizes, then Iran could become a vital part of the "northern tier", in which case the Department of Defense should determine the level of military aid to Iran.

c. Arab States

The Secretary asked whether the Defense people would advocate military aid to the Arab States on military grounds alone. Mr. Byroade doubted that they would.

The Secretary said that he felt the primary purpose of our military assistance to the area was to maintain internal stability. He felt that the possibility of invasion from without and of resisting successfully such an invasion were less likely than in Europe. Mr. Byroade said that this was exactly the line the executive agencies had taken during the Congressional presentation of the 1954 program. He said that the Defense Department had proposed a program in 2 phases: (1) sending small, but effective, military missions to advise the military regimes in most of that area. (2) The second phase would be the creation of a holding force against outside aggression in which the favorable terrain would prove most vital. He said that Congressional reception to this testimony had been favorable but that domestic pressure had kept the size of the program down.

d. Israel

Mr. Byroade pointed out the need to obtain more cooperation from the Israelis. He said that as the Arab military forces become stronger, it will be necessary for us to think about a military mission to Israel.

Mr. MacArthur asked why we obtained no *quid pro quo* in Israel. Mr. Byroade replied that there has been no grant military aid in Israel, that we had permitted them to make purchases in the U.S., but that we had also denied their request to purchase certain items. He said that he did not favor grant aid to Israel other than infrastructure unless they agreed to furnish us more information about the size and composition of their forces.

e. Pakistan

The Secretary asked if the determination on military aid to Pakistan was purely a military problem or if political factors were predominant. Mr. Byroade said that it was necessary to consider the effect on India of military assistance to Pakistan and that for this reason the Department has been holding back on granting military aid to Pakistan. Mr. Byroade said that the responsibility for justifying military assistance programs has been a joint one shared by the Departments of State and Defense. The Secretary said that it seemed to him that in the case of Iran and the Arab States military assistance was a quasi-political matter.

Economic Assistance

a. Greece and Turkey

Mr. Byroade said he would like to continue small economic assistance programs in Greece and Turkey. In response to a question

by the Secretary as to the relation of the present economic programs in that area to defense, Mr. Gardiner felt that economic assistance was necessary if Greece and Turkey were to maintain their present levels of military effort. He added that the Greek and Turkish soldiers were one of the "best buys" on the Defense expenditure counter. Mr. Nolting felt that it would be easier to cut the economic assistance programs to Greece and Turkey than the programs in other NEA areas. Mr. Byroade said that the figure for FY 54 for Greece and Turkey might have been too low had it not been for the "pipeline". He said that in the case of economic aid to Greece, Turkey and Israel, he favored a reduction every year. He pointed out that FOA would be responsible for the Congressional presentation of the FY 55 economic assistance program. The Secretary asked if the Department shouldn't decide as a matter of policy on the desirable levels of economic assistance. Mr. Byroade agreed and added that we should work closely with Defense and FOA in developing the program.

b. Reserve Contingencies

Mr. Byroade felt that the $50 million figure for "reserve contingencies" would be easier to justify before the Congress if it were added in with other figures under economic assistance such as the item for "special economic assistance to the Arab States". He referred to the difficulties he had experienced in trying to justify the reserve contingency figure in this year's program.

c. "Carry-Over"

Mr. Nolting pointed out the difficulties involved in projecting expenditures from year to year in economic and technical assistance programs. He predicted a sizable carry-over in the FY 54 appropriations. Mr. Gardiner said that we had been very frank with the Congress in this presentation. He said that the only way for Congress to underwrite long term projects such as dams was to appropriate money each year. It was felt that a project should not be started until the required funds had been appropriated and that, therefore, several years' appropriations for a development project might accumulate before the contracts were let. He pointed out that such accumulation could not properly be called a carry-over.

d. India and Pakistan

The Secretary asked about the level of economic assistance to India and Pakistan. Mr. Byroade said that this was always a controversial item but felt that a $200 million program for those countries would further the interest of the U.S. in that area. In Mr. Byroade's opinion our future position in the Far East-South Asian area depends much more on India than on Korea or China. The Secretary asked if we could buy this with economic assistance to

India. Mr. Bowie asked what *do* we buy with economic assistance there.

Mr. Byroade replied that we were buying democracy in India. He said that the next election would come in 1956 and that he would like to see the present system and the present personality retained. He felt that India would never go communist under Nehru in spite of the many difficulties we have had with him.

Mr. Bowie asked what results could be obtained from economic assistance that could not be obtained with investment capital. Mr. Waugh replied that this was an academic question. Mr. Bowie said that it should be possible to underwrite U.S. investments in that area and that it would be better from a foreign relations standpoint to conceal grants as loans. Mr. Byroade agreed that the sooner we could get out of the "grant business" the better off we would be and the better our position in the world would be. In response to a question by Mr. Bowie as to the use of the grant aid, the Secretary said that in effect it was budgetary aid. He illustrated this by describing the approach made by the Indian Government during his trip to that area. Mr. Byroade pointed out that they had over-simplified their approach and that there was a foreign exchange factor involved. The Secretary said that he had asked the Indians this question directly and that they had denied the importance of the foreign exchange factor.

Mr. Gardiner said that the Indians' 5-year plan was being financed by (1) the Indian Government, (2) the IBRD, (3) sterling "draw-downs", (4) countries supporting the Colombo Plan,[4] and (5) U.S. assistance. He said that much of U.S. assistance was devoted to community development in the villages, and that it was unlikely that private money would consider investment in this type of project. Mr. Gardiner added that these projects involving water resources were the type of project that are sometimes considered in the U.S. to belong in the public, rather than in the private, sector of the economy.

"Soft Loan" Bank

Mr. Nolting suggested that, in view of the Congressional desire to terminate economic assistance, some thought might be given to the establishment of a "soft loan" U.S. corporation. This bank should operate without the bankable loan requirements of the EX-IM Bank and the IBRD. The long run record of repayments might not

[4] The Colombo Plan for Cooperative Economic Development in South and Southeast Asia was established in January 1950 at a meeting in Colombo, Ceylon. Membership included the United States, United Kingdom, Canada, Australia, New Zealand, Burma, Ceylon, India, Pakistan, Nepal, the Philippines, Thailand, Laos, Cambodia, and Vietnam.

be good and there would be certain economic disadvantages, but Congress might be willing to appropriate money for such a device that they would otherwise be unwilling to authorize.

The Secretary said that he had given some thought to this idea. He felt that it would have the great advantage of flexibility. It would not be necessary to justify each single item or project. He pointed out that events do not always fall in line with the presentation of the program to Congress and cited recent developments in Iran and Egypt as examples. The Secretary said that another advantage of a soft loan bank would be that it would permit the planning of long range projects, such as dams, without relying on year to year appropriations by the Congress. The Secretary pointed out, however, that from the standpoint of the Treasury there is little distinction in the first instance between a withdrawal for a loan and for a grant. Shifting over from grants to loans would not, therefore, help Mr. Humphrey's budget picture a great deal.

Mr. Waugh's Views

Mr. Waugh favored the idea of separating military assistance from foreign aid and said that Mr. Kalijarvi felt that foreign aid will have to be reduced sharply and eliminated soon. Mr. Waugh said that his recent travels around the country have convinced him that, if fiscal policies are the administration's number one problem, agricultural surpluses are its number two problem. He said that we now have on hand a $3 billion crop surplus with a prospect of a larger carry-over into the 1954 crop year. He added that both parties are committed to price support programs.

Mr. Waugh referred to Henry Hazlitt's recent article on foreign aid in *Newsweek* and emphasized the need to separate military, economic and technical assistance programs and to educate the public on the distinction between the three and the advantages of each. Mr. Waugh said that he had found almost no public opposition to defense spending. He said that there were certain FOA missions in countries where there were no programs to justify such missions and added that these should be eliminated.

Conclusion

Mr. MacArthur said that the military assistance program should be included in the Defense budget and should be justified on the grounds that this program is one of our best investments in U.S. security. The Congress and the people should be told that if we don't spend these dollars for *collective* security it would be necessary to spend *many more* dollars on our own defense system and would still not achieve the same degree of security.

Mr. Byroade said that if Congressional support were to be obtained for another year of foreign aid it would be necessary to

reduce the present cost of administering the program. He referred to Senator George's comments along these lines. Mr. Waugh said that Mr. Kalijarvi felt that Senator Mansfield could be most useful in connection with next year's foreign aid program.

The Secretary referred again to the soft loan bank idea and said that the repayments for such loans might prove to be much higher than we would expect now. He said that production financed by such loans might one day prove extremely useful to the U.S. A soft loan bank would remove the "give-away" label from our foreign assistance programs. He said that many Congressmen find it extremely difficult to answer their constituents when they ask "Why not build roads and dams in your own district rather than in India?"

Mr. Byroade asked if a soft loan bank might not reduce the demand for sound bankable foreign loans. The Secretary said that such a soft loan bank should be authorized to grant loans only to borrowers who had been refused by the IBRD and the EX-IM Bank.

The Secretary said that this discussion had been useful for preliminary thinking. He added that it would probably be necessary to scale down, and perhaps shift the form of, the NEA preliminary proposals.

[Tab B]

Memorandum of Conversation, by J. Stewart Cottman of the Staff Operations Section of the Executive Secretariat

TOP SECRET [WASHINGTON,] September 4, 1953.

Subject: FY 1955 Foreign Aid—Far East

Participants: The Secretary
C—Mr. MacArthur
S/P—Mr. Bowie
E—Mr. Waugh
FE—Mr. Johnson
S/MSA—Mr. Nolting

Mr. Johnson stated that particularly in view of the situation in Indo-China and Japan that for FY 1955 he visualized no appreciable cuts below this year's appropriations figures for the Far East.

Indo-China

In Indo-China, implementation of the anticipated stepped-up military program calls for a FY 1955 estimate of about $1.5 billion. This figure compares with $1.3 billion granted for FY 1954. Mr. Nolting said that $500 million allocated for end-items might be cut

back by Defense because of the amount of material in the pipeline and presently on hand in Indo-China. The Secretary questioned whether the increased tempo of military operations in Indo-China did not make cuts in the end-item appropriations infeasible. Mr. Johnson said that while expenditures for particular types of equipment and services might vary with the situation, the total need is expected to be of the same order of magnitude as in FY 1954.

Japan

Mr. Johnson stated that the Japanese economy had received considerable assistance from the $528 million dollar fund administered by the Defense Department. Four Divisions of armed forces have already been equipped and the available funds will go far toward establishing two additional divisions. However, $75 million additional will be needed for a six-division force and $175 million will be necessary to establish and maintain the projected Japanese Air Force program. The projected military program for FY 1955 will require the additional $150 million without considering any economic aid.

Economic Problems

Mr. Johnson noted that the Japanese had a $1.3 billion trade deficit last year despite heavy dollar expenditure by the U.S. Japanese reserves run about $1 billion. Mr. Bowie asked if this reserve was all in dollars. Mr. Johnson said this figure represented a total reserve. To Mr. Waugh's question as to whether we could anticipate increased Japanese exports, Mr. Johnson said that his best information indicated that at this time, we could not. He added that the Japanese fiscal policy could stand considerable tightening. The Secretary mentioned the difficulties he had encountered in trying to convince Yoshida of the necessity of applying necessary economic controls. Mr. Bowie asked to what extent trade with Communist China could alleviate Japanese economic difficulties. Mr. Johnson replied that according to his best figures, Japanese trade with the China mainland before the war constituted only about 15% of the total (or about $300 million per year). In reference to trade with the UK, Mr. Johnson added that Japanese sterling balances were dropping at a rate comparable to that of her dollar balance. Along this line Mr. Johnson noted that wool imports to Japan are large, but there were raw materials available on the islands for the development of a synthetic fiber industry which in a relatively short period of time could be built up to the point where wool imports could be reduced to a manageable level. The question of financing such an industry was agreed to be crucial in developing such a plan. Mr. Waugh said that the problem of providing funds for economic development in Japan were scheduled to be discussed at the

forthcoming Board meeting of the International Bank. The Secretary added that the Export-Import Bank would probably not be in a position to provide any funds for a textile synthetics operation.

Mr. Nolting asked for a run-down on the estimated cost for military build-up. Mr. Johnson said $250 million plus the present Army fund (totaling $778 million, of which $175 million is for the development of air forces) is thought to be adequate for the proposed six divisions. The force goal for Japan is 10 divisions. Mr. Johnson added that no grant aid is contemplated, at this time, but noted that foreign exchange reserves may be exhausted by late 1955. The Secretary asked if we were doing all we should in regard to the Japanese financial situation. Mr. Johnson suggested as a possible aid to dealing with economic problems throughout the area, the establishment in the Department of the position of Economic Coordinator for the Far East.

Korea

Economic Problems

Mr. Johnson said the U.S. is presently committed to a $300 million per year program implementing the findings of the Tasca survey and an additional $60 million for the U.S. share in UNKRRA.

The Secretary observed that though the Korean aid program was presently popular he could foresee a time—possibly within a year—when the enthusiasm of the Japanese and Chinese Nationalists would diminish and they would change their attitude toward aid to Korea. The Secretary asked about the possibility of stopping the U.S. contribution to UNKRRA. Mr. Johnson explained that one of the advantages in U.S. participation in UNKRRA was that, although we bore the greater share of the expenses, other UN nations contributed approximately $55 million for Korean rehabilitation which might otherwise not be available. It was generally agreed that at this time contributions from other nations should be encouraged.

Military Support

Mr. Johnson said that a good part of the $300 million would go toward defense support. The cost of the contemplated 20-division military force for Korea was estimated at $750 million per year with an additional $200-$250 million per year for direct military costs. It is contemplated also that if UN forces withdraw, they would leave a considerable amount of usable military equipment for Korean troops, but that plans would have to be made to replace this equipment as it was expended. To Mr. Bowie's question as to how many troops Korea could support without aid, it was the general consensus that 5 divisions were the most that could be expect-

ed. Mr. Waugh suggested the possibility of having the Defense Department assume responsibility for military assistance in Korea, but it was thought that, for two years at least, the Department of State was committed to $350 million a year.

Formosa

Mr. Johnson stated that Formosa had received a generous grant this year from the Congress—more than was requested by the Administration. He anticipated for FY 1955 a military program costing $300 million would be adequate to ensure the attainment of the force goals for Formosa by the end of FY 1955. The force goals are (1) a 21-division force with appropriate support and (2) a fleet of PT 5 surface vessels and (3) an 8 and ⅓ wing air force comprised of 4 and ⅓ wings of jet planes and 4 wings of non-jet aircraft. It is estimated that this force with the aid of the Seventh Fleet would be adequate to secure Formosa against any attack from the mainland but would not provide for any large-scale operations on the mainland by the Nationalists. Mr. Johnson added that Taipeh would undoubtedly continue to press for a 60-division force.

Economic Aid

Economic aid program for Formosa is planned to consist of (1) economic support of military expenditures and (2) economic development of the country. For FY 1955 the economic development program would be limited to approximately 10% of the $70 million designated for economic aid. However, it is planned that the economic development program would be increased gradually over the next four to five years with the result that Formosa could be largely self-sustaining except for direct military expenditures. Mr. Johnson estimated that the $100 million a year defense expenditures would continue indefinitely.

Other Countries

It is anticipated that aid to Thailand, the Philippines and Indonesia will continue at modest levels, with economic aid principally in the form of Point IV-type programs.

Summary

Mr. Johnson estimated $2.6 billion for economic and military aid to the Far East, of which approximately one-half would be granted Indo-China. The Secretary suggested that it would be ideal if the Department would take the position in the NSC that State would not request any money for Indo-China not approved by Defense. It was generally agreed that political considerations over and above purely military ones would probably limit the effective implementation of this approach at this time.

MSA-FOA Director's files, FRC 56 A 632, box 8, "State Department 1953"

The Secretary of State to the Director of Foreign Operations (Stassen)

WASHINGTON, September 28, 1953.

DEAR HAROLD: I have examined with interest the proposed organization chart of FOA which you forwarded to me on August 25.[1] I understand that members of our respective staffs have meanwhile discussed the proposed organization of your Administration and related matters. I think the organization you have proposed on the chart adheres to the principles of the President's reorganization message and the Rockefeller Committee Report,[2] and should facilitate close and effective working relationships at all levels between our agencies and contribute to carrying out successfully this Government's foreign policy.

With regard to your proposal to change the names of all MSA and TCA missions to U.S. Operations Missions, I fully agree that your field staffs should have such an official title in all countries where they are established as separate missions. I do feel, however, that in the case of the FOA/TCA field staffs the current arrangements should continue. As you know, these staffs are constituted as a part of the Diplomatic Mission, comparable to the Diplomatic Mission-MAAG arrangement. While I believe that the FOA/TCA staffs might well have a distinctive title within the mission, these staffs should continue to be a part of the Diplomatic Mission and should not be established as separate U.S. Operations Missions under the authority of Section 109(a) of the Economic Cooperation Act of 1948, as amended.

Though a part of the Diplomatic Mission, the FOA/TCA staff would, of course, continue, as at present, to report to and communicate directly with you, and in their relationships with the Chiefs of Diplomatic Missions would be subject to E.O. 10476.[3] The present arrangement is one which the host countries are accustomed to and the establishment of separate and additional missions may have undesirable effects on our relationships with those countries. Furthermore, by adhering to the existing relationship we will bene-

[1] See the letter from Stassen to Secretary Dulles, Aug. 25, 1953, p. 642.

[2] Reference is to the Report of the President's Advisory Committee on Government Organization. See the memorandum for the President, Apr. 7, 1953, p. 615.

[3] For the text of Executive Order 10476 relating to the administration of foreign aid and foreign information functions, dated Aug. 1, 1953, see 18 *Federal Register* 4537 or U.S. House of Representatives, *Mutual Security Legislation and Related Documents*, December 1953, 83d Cong., 1st sess., pp. 179–186.

fit from the several years of experience that has been accumulated in the field, including the continuation of the important contribution of the economic staffs of the Diplomatic Mission to the FOA/TCA programs.

In view of our joint concern about the need to reduce U.S. staffs overseas to the absolute minimum, we must develop arrangements which will permit manpower talents overseas to serve both the Department of State and FOA. In those countries where we are providing special economic aid as well as technical assistance, I suggest that these arrangements be predicated on the integration of our economic staffs under the common leadership of an individual who would serve as principal Economic Officer of Embassy and as Chief or Deputy Chief of your mission. Under this arrangement you would be able to utilize the economic staffs which the State Department now provides each Diplomatic Mission to work on economic analysis and reporting, trade and investment opportunities and other related economic activities. These staffs presently service all government agencies concerned with foreign economic affairs. In countries receiving only technical assistance, the economic section of the Diplomatic Mission should provide such aid on economic matters as your staff may require and which is a normal part of the Diplomatic Mission's duties.

You will recall that last June, we agreed in principle that separate aid missions should be closed out in countries where we are no longer furnishing economic, technical or defense support assistance. It is now clear that in FY 1954, such aid is not contemplated for Belgium, Denmark, the Netherlands and Portugal. I feel that we should now proceed with the liquidation of those missions. Undoubtedly there will be certain residual functions which must be continued during this and perhaps the next fiscal year. These can be carried on by adding to the Embassies certain of the personnel now with the separate FOA missions. I believe in most cases fewer personnel will be required than are contemplated for the separate FOA missions, though it would be necessary to finance such additional personnel as are needed from FOA funds. You would, of course, continue to direct FOA activities in these countries. I am sure we can work out arrangements which will enable you to do so while liquidating the separate missions whose major functions have come to an end.

Sincerely yours,

FOSTER

A/MS files, lot 54 D 291, "Relationship with FOA"

The Director of Foreign Operations (Stassen) to the Secretary of State

WASHINGTON, September 30, 1953.

DEAR FOSTER: Thank you for your thoughtful letter of September 28.[1] I am pleased that it is your view that our proposed organization adheres to the plans of the President's reorganization message and the Rockefeller Committee Report, and should facilitate close and effective working relationships at all levels between our agencies and contribute to carrying out successfully this Government's foreign policy.

With respect to the specific question you raise on TCA field staffs, may I hasten to advise you that the instructions to change all missions to United States Operations Missions have already gone forward, as I had not heard of any difference on this since I had forwarded the chart to you on August 25. May I comment further that I do consider it quite essential for efficient administration for all missions to take on certain new characteristics under President Eisenhower's Administration and for all missions to be closely coordinated under the country team leadership of the Ambassador.

In the Far East area, for example, we have established the Regional Directorship under Dr. Raymond Moyer, who is extremely competent and experienced, and whose appointment I checked with Assistant Secretary Robertson before concluding. The missions in Indonesia and Burma have been TCA missions. The missions in Thailand, Indo-China and the Philippines have been MSA missions. Under our reorganization, they will all become United States Operations Missions, subject, of course, to the question of the future Burma situation.

Likewise, in the Near East-Africa area, the missions in Greece and Turkey are MSA missions, and the type of coordinated economic and technical assistance program which will be carried on in Iran and Egypt, for example, can best be handled by a similar type mission.

Throughout the world, there is not a clear-cut division, nor can there logically be one between technical assistance and economic assistance. Our basic approach is that we are conducting a United States program overseas, that our objectives are world-wide, that they are consistent, and that they spring from the foreign policy leadership of the Secretary of State and are under the direction of the President.

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[1] *Supra*.

I am entirely in agreement that either the Mission Chiefs or the Deputy Mission Chiefs should also serve as the chief economic officers of the Ambassadors, and we have been moving steadily in this direction, working with the Assistant Secretaries concerned. Spain is currently being set up on this basis.

With regard to Belgium, Denmark, The Netherlands and Portugal, we are contemplating very small missions closely integrated with the Embassies. In these NATO countries, with the extensive offshore procurement, counterpart, raw materials, overseas territories, productivity projects, and surplus food problems, it seems quite clear to me that a continuation of a small mission with the country team approach is preferable to any type of special agreement for an expanded embassy financed by FOA funds. We have liquidated the Mission in Iceland and will further review toward the end of this current fiscal year the activities and programs and the best method of administration in the other countries.

I will be pleased to discuss any of these problems with you further, and in the meantime my staff and its regional officers will continue to cooperate closely with yours in the specific working problems.

Sincerely yours,

HAROLD E. STASSEN

103 FOA/11-1253

The Secretary of State to the Director of Foreign Operations (Stassen)[1]

CONFIDENTIAL [WASHINGTON,] November 12, 1953.

DEAR HAROLD: I have recently taken the opportunity to review with some of my colleagues the subjects covered in our exchange of letters with respect to your reorganization plans for the Foreign Operations Administration.[2] Although I know that you and I understand and agree on the basic relationships between FOA and the State Department, I believe that the fullest possible clarification of our respective responsibilities is needed to enable our staffs to carry out their assignments effectively and with good teamwork.

I am concerned by the many communications from the field which have been received in reply to your circular telegram of

[1] Drafted by Orwick on Nov. 11, with the assistance of Nolting. Cleared by Sargeant, Waugh, Lourie, and Walter B. Smith.

[2] Reference is to the letters from Stassen to Secretary Dulles of Aug. 25 and Sept. 30, 1953, p. 642 and *supra*, respectively, and to Secretary Dulles' letter to Stassen of Sept. 28, p. 653.

August 31 (Musto 15, Tecto 41).[3] Such replies have come not only from U.S. chiefs of diplomatic missions but in a number of instances from your own chief representatives abroad, either requesting clarification of the role proposed for FOA staffs overseas or questioning the wisdom of applying your instructions to FOA staffs as they have interpreted those instructions. I have in mind Ambassador Kemper's letter to you in which he states that in undertaking activities in the fields of investment and trade development, your agency will be engaging in exactly the same activities to which the Embassy gives a very large part of its time and effort. This concern is supported by a communication from your country director at Rio de Janeiro, Mr. Robert G. Groves. He fears that duplication of investment and trade activities by the Embassy and FOA mission might detract from good will toward the technical assistance program and lessen chances of achieving U.S. policy objectives. I have also in mind a series of messages from Karachi which includes messages from the Ambassador and from your Mission Director, as well as a joint message. All of those urged that the present organization be maintained.

In other instances, while I have not seen any messages from your mission directors for the same countries, the ambassadors have strongly urged clarification of our intent. For example, Ambassador Donovan at Bangkok has expressed grave concern over the statement contained in your message that trade and investment and economic analysis functions should be performed by the FOA mission, since these are Embassy responsibilities and "ridiculous duplication" would result from their performance by the FOA staff. Ambassador Spruance at Manila has also requested instructions as to how the economic functions of the Foreign Service are affected by your circular instruction. He states the functions you have outlined for the FOA mission "could result in wide duplication of the type which Reorganization Plan 7[4] seeks to reduce or eliminate." Ambassador Pheiffer, Dominican Republic, has sent me a copy of a memorandum which he prepared at the request of Congressman Donald Jackson. In this memorandum also, Ambassador Pheiffer envisages direct duplication between the economic sections of the diplomatic missions and of the consular offices on the one hand and your mission on the other, if all the activities outlined in your circular instruction are assigned to the FOA staff.

[3] The telegrams, messages, letters, and other communications referred to in this and succeeding paragraphs are not printed.

[4] See the editorial note, p. 628.

I believe you will agree that those reports demonstrate an undesirable lack of clarity in the understanding of their respective responsibilities by our overseas staffs.

You will recall that in my letter of September 28 I proposed that, in the interests of greatest economy and efficiency, the FOA overseas staffs should not undertake activities which the Embassy economic staff is equipped to perform. In all diplomatic missions the economic section is primarily organized to work on economic analysis and reporting, trade and investment opportunities, and related economic matters, and is charged with performing such functions for the government as a whole. I fully appreciate your interest in such matters and their close relationship to the activities which you are charged with administering under Reorganization Plan 7. However, I do feel that the work of the economic sections of the Embassies can be fully related to the efforts of your field staffs if we forcefully pursue a policy of integrating our staffs on economic matters under the common leadership of a single individual who will serve both the Department of State and FOA. This arrangement would maintain the traditional and unavoidable responsibilities of the Embassy in the field of foreign economic affairs and would provide you with those activities and services which are essential to the successful operation of the aid programs. It will also serve to clarify the confusion that has arisen in the field on the respective responsibilities of the Embassy and FOA field staffs on economic matters.

I am pleased to note that you agree that we should move in the direction of eliminating FOA field staffs in countries where aid is no longer furnished. We should keep all such cases under continuous review to assure that the most efficient, economical and effective arrangements are in existence.

Another factor which has increased my concern about the foregoing matters is the Budget Bureau's indication that it feels that there are possible duplications between the work of the Department of State and FOA overseas. I feel that we must take positive steps to correct this impression before the Fiscal Year 1955 Mutual Security Program is presented to the Bureau. As a means of doing so, I suggest that circular telegrams to appropriate areas be prepared jointly by your representatives and mine, the purpose of which would be to clarify the operating relationships in the field between members of our respective organizations. It is my present thought that such telegrams would prescribe somewhat different patterns of cooperation, depending upon the missions to which they are addressed. I have asked Mr. Nolting to be available to work with whomever you may designate on this task.

In view of Mr. Dodge's interest in those matters, I am sending him a copy of this letter.[5]

Sincerely yours,

JOHN FOSTER DULLES

[5] Secretary Dulles met with Stassen on Dec. 2 to discuss a number of matters. The memorandum of their conversation, drafted by the Secretary on the same day, reads in part as follows: "Mr. Stassen spoke of the possibility that Congress might want to send FOA back to State. I said I was reluctant to see us take on these economic responsibilities, that I thought things were working pretty well at present except that his people in the field seem to create some jealousies vis-à-vis the regular Foreign Service people. Stassen said he thought that if FOA should continue as a semi-permanent agency they should develop some kind of economic Foreign Service which would keep their people into alignment with ours so far as salary perquisites, etc., were concerned." (U/MSA files, lot 56 D 551, "Secty Memos of Conv.")

700.5 MSP/11-2153

Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State [1]

CONFIDENTIAL WASHINGTON, November 21, 1953.

Subject: Mutual Security Program for Fiscal Year 1955

Discussion

As you know, the formation of the national budget for Fiscal Year 1955 is now in progress and is moving rapidly towards completion. The Mutual Security part of the budget has been the subject over the past several weeks of intensive hearings by the Bureau of the Budget, involving both the estimated military requirements and the estimated economic requirements of our allies. The total estimate of requirements for the next fiscal year is considerably lower than the amount appropriated by the Congress for Fiscal Year 1954. This is principally due to the fact that the Defense Department is placing its financing of military end-item assistance on a more current basis than heretofore—i.e., it will utilize the very large backlog of appropriated and unexpended funds (approximately $10.5 billion) to reduce the amount of new funds required in the coming fiscal year.

In order to enable the agencies involved to refine more precisely the Mutual Security requirements for the next fiscal year, it is necessary that certain basic decisions be reached. We are faced by

[1] A brief covering memorandum, dated Nov. 27, 1953, addressed to Nolting from Roderic L. O'Connor, reads: "Fritz—Secretary noted his position on pp. 4 and 5—if you have any questions call for an appointment." The Secretary's comments are noted in footnotes 2-5 below.

deadlines in the near future which cannot be met unless the major decisions are promptly taken. These deadlines are: the requirement of the Bureau of the Budget to present the total U.S. budget to the President around December 15; the President's desire to have discussions with Congressional leaders on next year's legislation during December; the desirability to have draft legislation on the Mutual Security Program completed and ready for introduction early in the next session. You will recall that the President agreed with certain Congressional leaders at the last session that the Mutual Security Program for next year would be in the form of new legislation which would eliminate the "patchwork" of present statutes. The drafting of new legislation has proceeded as far as possible in the absence of the basic decisions referred to above, and even after such decisions are reached it is expected that the completion of such legislation will require a considerable amount of time.

Recommendation

The Bureau of the Budget has presented a list of major issues concerning the Mutual Security Program with which you are familiar. The attached paper (Tab A) attempts to set forth the major issues as I see them, and to make recommendations on each. I hope that it may serve as a basis for meeting with you early next week in order that the State Department position can be firmed up on these matters.

[Tab A]

Staff Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting)

CONFIDENTIAL WASHINGTON, November 24, 1953.

Consideration of the following three questions will help, I think, to reach conclusions on the major issues concerning the Mutual Security Program for Fiscal Year 1955:

What types of mutual assistance are required for FY 1955 and what are the approximate amounts of each type?

What are the most effective and efficient means of administering each type of assistance?

What form of coordinating machinery within the U.S. Government is necessary for effective administration of the programs?

I. The following appear to be the types of assistance which will be required in Fiscal Year 1955 in order to carry out our strategic

objectives, both foreign policy and military, together with estimates of amounts of each type:

(1) Military end-item assistance (worldwide estimate of new funds required $2.4 billion).
(2) Defense support, closely related to the ability of our allies to maintain their forces at agreed levels or related to the exercise of U.S. base rights in foreign countries (estimate $1.1 billion, including $800 million to France for the Indo-China war).
(3) Assistance in the economic development of countries important to the U.S. (estimate of capital funds required over a four-year period $1 billion).
(4) A Technical Assistance Program (estimate $150 million).
(5) Economic grant assistance, principally for Korea (estimate $350 million).
(6) U.S. contributions to United Nations programs (estimate $100 million).

II. Concerning the military program (items 1 and 2 above), the Department on the staff level has taken the position that all economic aid directly related to maintaining the defense effort of our allies and to the acquisition and maintenance of bases for U.S. forces should be included in military aid appropriations. In Fiscal Year 1955 this would cover aid to France for Indo-China, U.K., Spain, Greece, Turkey, and Yugoslavia. Except for France and the U.K., such aid could be provided by "common use" programs. The U.K. assistance could probably be met by increased offshore procurement. "Budget-support" aid for France for the Indo-China war will probably take the form of payments to the French Government against its budget expenditures for Indo-China. This could be done by a special line of credit out of Department of Defense military assistance funds. A large part of the proposed economic aid for Formosa could also be furnished by the Department of Defense in the form of "common use" items.

On the assumption that end-item military assistance funds will be appropriated to the Department of Defense, it is the staff view that defense-support funds should also be appropriated to the Department of Defense and administered by it. The justification for defense-support assistance is primarily a military justification—viz., to enable our allies to maintain in readiness, and in the case of Indo-China to maintain in battle, forces which we consider necessary to our common cause. To separate defense-support funds from other military assistance funds would, in our judgment, weaken the case for defense-support appropriations. It would also complicate the problem of administration. The necessary coordination between the Department of State and Department of Defense to safeguard the important foreign policy aspects involved in the application of defense-support aid will be discussed below.

With regard to the third type of assistance, economic development, the major issue may be stated as follows:

Is it desirable to shift from an economic *grant* aid policy to a *loan* policy? If so, what proportion of economic aid requirements for Fiscal Year 1955 can be handled as loans, and by what U.S. agency?

As the idea of loans in lieu of grants has been considered in the Executive Branch, a number of different views have been developed. In general, those who favor the idea do so for three reasons: (a) loans will enable recipient countries to do better long-range economic planning, in view of the fact that a line of credit could be extended over a longer period of time and provide more certainty than grant aid, which can be provided only on an annual basis; (b) for the long run it may be good business to hold promissory notes, even of countries whose present prospects of payment are not good; (c) it will be easier to obtain loan authority than grant authority from the Congress. Those who do not favor the idea of loans in lieu of grants do not seem to have an adequate answer to the fact that the 83rd Congress has virtually gone on record in opposition to the continuation of large grants-in-aid for economic assistance to foreign countries.

When it comes to the question of what particular economic assistance requirements can be met by liberal loans, there is a difference of opinion among the geographic bureaus of the Department. NEA, for example, does not feel that the requirements for the Near East and South Asia can be met entirely by loans. It is my opinion that most, if not all, of the economic requirements in the NEA area can and should be handled on a loan rather than a grant basis, excepting, of course, technical assistance; but I believe you will want to discuss this question more thoroughly with Mr. Byroade.

If loans in lieu of grants are decided upon, there are several possible ways of extending the loans. The first would be through the creation of a new U.S. government corporation—a Development Loan Corporation—for which authority and capital would have to be sought from the Congress. Such a corporation should, in my opinion, be headed by a Board of Directors, the majority of whom are appointed by the Secretary of State. It should have a small staff in Washington, but no staff permanently stationed overseas. The management of the corporation should be responsive to the policy guidance of the Secretary of State. Information necessary for the successful functioning of the corporation should be supplied by the economic sections of the missions of the Department of State overseas, both routinely and upon specific request of the corporation via the Department of State. Staff members of the corporation

would presumably make field trips from time to time to make investigations of loan applications. Principal reliance for effective reporting on progress of projects should, however, be placed on the Embassy in the country concerned.

An alternative would be the Export-Import Bank. This would require certain basic decisions within the Executive Branch to liberalize the lending policy of that institution. Whether or not it would require new legislation is presently under study. As you know, the Department of State has constantly pressed for a more liberal lending policy on the part of the Export-Import Bank, particularly with regard to Latin America. In order for the Export-Import Bank to be an effective instrument for the policy of loans in lieu of grants, it would be necessary for the bank to change its orientation in order that foreign policy considerations should have more weight than at present in the granting of loans.

As between the two alternatives above, I am inclined to favor the former, i.e., the creation of a new Development Loan Corporation, for the following reasons: (a) the new corporation could function directly under the policy guidance of the Secretary of State; (b) the present portfolio of the Export-Import Bank would not be disturbed; (c) the new corporation could make loans on more liberal terms without creating pressures in the same degree for the renegotiation of existing loans held by the Export-Import Bank. It has to be taken into consideration, however, that the request for authorization and capitalization of a new Development Loan Corporation would be more difficult to obtain from the Congress than would be any necessary modification in the existing law governing the Export-Import Bank.

The fourth type of assistance—Technical Assistance—has a record of success and should be continued on a steady, long-range basis. Adjustments in the direction of fewer projects should perhaps be made after study on a country-by-country basis. On the assumption that military assistance in the expanded sense will be administered by the Department of Defense, and that a lending institution will administer most of the economic assistance, it seems clear that the Technical Assistance Program could be most efficiently and economically administered by the Department of State.

Of the remaining two types of assistance, it appears that the major, if not the only, case for grant economic assistance will be for rehabilitation purposes in Korea. Under the concepts outlined above, the Korean economic rehabilitation program might well be administered by the Department of State with an overall saving of U.S. manpower and administrative expense.[2]

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[2] Secretary Dulles wrote "no" at the margin of this paragraph.

Finally, funds for the multilateral programs, as previously suggested, should be sought as a part of the budget of the Department of State, which should administer them. This would represent no great departure from the present procedure.

III. A very important question involved in the above outline is the provision of the necessary coordinating machinery within the U.S. Government. The principal problem of inter-agency coordination concerns the military aid funds. It would not be difficult, I think, to work out an effective and simple method of direct coordination between the Departments of State and Defense, to provide effective guidance without interference. The introduction of a third agency would only serve to delay decisions and diffuse responsibility. Proper and effective guidance with respect to military aid programs in order that they may conform with foreign policy objectives need not place an onerous task on the Department. Selective participation in the program process (planning assumptions and determination of requirements, program review and approval, and determination of munitions assignment priorities) would provide the necessary policy guidance for the military aid program. Within policy guidelines from the Department of State the responsibility for the successful administration and efficient operation of the military aid program should be in the Department of Defense. Coordinating arrangements should be established legislatively or by Executive Order to assure maximum coordination, to define clear lines of responsibility, and to prescribe definite procedures for each agency.

IV. *Conclusions and Recommendations*

In order to move forward in the process of developing the budget and the legislation for the Mutual Security Program for next year, it is necessary that conclusions be reached on these questions:

(1) Should the "Military Assistance Program" include defense and budget-support items? (Recommendation—Yes).[3]

(2) If so, should these funds be sought as an appropriation to the Secretary of Defense? (Recommendation—Yes).[4]

(3) Should the Administration seek in all possible cases to substitute liberal-term loans for grant economic assistance, excepting Technical Assistance Projects? (Recommendation—Yes).[5]

(4) If so, should this be done by the establishment of a new Development Loan Corporation or through the Export-Import Bank? (Recommendation—Through the establishment of a new corporation, *unless* adequate arrangements can be worked out to assure

[3] Secretary Dulles wrote "ok" at the margin of this paragraph.

[4] Secretary Dulles wrote "tentative yes" at the margin of this paragraph.

[5] Secretary Dulles wrote "ok" at the margin of this and succeeding two paragraphs.

the responsiveness of the Export-Import Bank to guidance *on foreign policy grounds* in its lending policy).

(5) Should a separate Foreign Operations Agency be continued? (Recommendation—No, provided military assistance in its broader definition is administered by the Department of Defense and loans are substituted for most grant economic aid. Under these conditions, the remaining aid activities would be comparatively small and would not justify maintaining a separate agency).

700.5 MSP/12-653

The Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Director of the Bureau of the Budget (Dodge)[1]

SECRET [WASHINGTON,] December 6, 1953.

DEAR MR. DODGE: The Acting Secretary of State has approved the transmittal to you of the following views of the Department of State on the original FY 1955 estimates of requirements for the Mutual Security Program submitted by the Foreign Operations Administration to the Bureau of the Budget. It is our understanding that Mr. Stassen is submitting to you today revised estimates of requirements[2] which differ in some respects from the original FOA submissions. Since we have not had the opportunity, because of the accelerated schedule, to study these revisions, our comments are directed to the original submissions.

I should like to take this opportunity to compliment Mr. Macy and his staff on the manner in which they conducted their budget examination. Their searching analysis and cooperative attitude has contributed greatly towards the development of a sound, economical and effective Mutual Security Program for FY 1955.

In presenting the following views, the Department of State has evaluated the general magnitudes of grant assistance in terms of requirements which must be met for various activities and countries if we are to achieve our foreign policy objectives. However, in reviewing the submissions of the operating agencies we have not been in position accurately to evaluate the operational feasibility to utilize effectively the funds requested for particular activities. In addition, we have not taken into account at this time the modalities of our assistance and their effect upon the magnitudes of aid. As you are aware, the Department is studying the possible uses of

[1] Copies of this letter were sent to the Director of Foreign Operations and the Assistant Secretary of Defense for International Security Affairs.

[2] A copy of a 35-page letter from Stassen to Dodge, dated Dec. 9, 1953, transmitting the views of the Director of Foreign Operations regarding the size and composition of the fiscal year 1955 Mutual Security program is not printed.

surplus agricultural commodities in our Mutual Security programs and the possibilities for providing assistance through loans under a more liberal lending policy in lieu of grant economic assistance. Final positions of the Secretary of State on the foregoing questions are expected to be made within the next several weeks, and their effect upon the magnitude of Mutual Security funds evaluated. These results will be promptly forwarded to you.

Military Assistance

The Department of State supports the estimate of $2.4 billion for military assistance—i.e., for MDAP, including offshore procurement. I should like to stress, however, that it continues to be the position of the Department of State that "defense-support" requirements should be sought in the category of "military assistance", and such requirements would thus be additive to the $2.4 billion figure. The Department supports the $2.4 billion estimate of requirements by the Department of Defense on grounds that it will be a step toward placing the financing of the MDAP program on a more current basis, and that the large undelivered parts of the program taken in combination with the plan to finance lead time with Department of Defense funds does not justify additional financing in FY 55 beyond that recommended by the Department of Defense.

The Department of State considers that the $2.4 billion figure is a minimal figure for the following reasons:

(a) There should, in the opinion of this Department, be a provision similar to Section 513*b* of the present Mutual Security Act giving discretionary authority to the President to transfer funds from military assistance appropriations for unforeseen emergencies; the reduction of the $2.4 billion figure, as we see it, would leave little possibility of effecting such transfers without seriously delaying the accomplishment of military objectives.

(b) The Department believes that a program of the magnitude of $2.4 billion, which represents a substantial reduction below FY 1954, will provide continued support for commitments in NATO and other security arrangements, and that this can be adequately explained to our allies without adverse political effects. A further reduction of the figure, however, might well result in the elimination of any further contribution to the war reserve equipment for NATO forces, and thus provide evidence which might be interpreted as a change of our policy in Western Europe.

(c) The FY 1955 military aid program for NATO countries as submitted by the Department of Defense assumes a force basis which excludes from MDAP support all new military units unless individual countries are considered capable of fully supporting and maintaining existing units out of their own resources. It should be pointed out that this programming assumption is in accordance with a JCS criterion which has not been accepted as governmental policy. It is our understanding that time has not permitted the Department of Defense to compare the resulting force basis accepted for

MDAP programming with the 1956 NATO force goals which the U.S. intends to approve in the 1953 NATO annual review. It appears almost certain, however, that a fairly large number of support units for ground forces will be included in the NATO force goals for 1956 for which no provision will have been made in the FY 1955 MDA program, although such units will be largely dependent on MDAP assistance for their equipment requirements. A reduction of MDAP funds below the $2.4 billion submitted by the Department of Defense would increase the difficulties of reprogramming to meet the higher priority requirements of such units as are not now covered in the FY 1955 program but which we are prepared to accept within the NATO force goals.

(d) While the program presented by the Department of Defense does not make special provision for certain contingent requirements for military assistance in FY 1955, the Department of State believes it may be necessary to reprogram, as a matter of priority, some part of the $2.4 billion for such requirements. Among the countries where we believe this may be the case is Germany, Japan, Iran, and Pakistan and possibly several other nations in the Middle East and the American Republics. Reduction below the $2.4 billion submission would impair the possibility of reprogramming without serious prejudice to the accomplishment of other objectives of this program.

(e) It should also be pointed out that the Executive Branch is actively considering a decision to provide non-nuclear new weapons for NATO forces. If this decision is made there is doubt that the figure of $2.4 billion will be sufficient to implement this plan.

An assumption which should be stressed in connection with the Department of State's support of the $2.4 billion figure is that we will succeed in making substantial deliveries of equipment to our allies. The contemplated sharp reduction in new obligational authority in FY 1955, particularly in the NATO area, coupled with a failure to deliver past programs, would undoubtedly lead our allies to believe that we were reversing our policies towards Western Europe.

A major objective of the mutual security program is to support the continued development in Europe and the Far East of an adequate military production base. The offshore procurement portion of the Mutual Defense Assistance program has been and will continue to be a key element in achieving this objective. The assumption that a substantial volume of offshore procurement could and would be continued under the FY 1955 MDA program is a major factor in the Department's support of the reduction in "defense support" programs for that year.

Europe—Economic Assistance

France (Indochina)

The Department strongly supports the estimate of $800 million for support of the military operation in Indochina to be included as

a part of the "one line item". In accordance with our discussion with Mr. Macy of your staff, a costing exercise for this program for calendar year 1954 is being undertaken and will be completed before the time for submission of legislation to Congress. Out of this costing study should come the basis for projecting 1955 costs and a firmer estimate of the amount of this important requirement.

Berlin

For West Berlin, the Department believes that an estimate of $30 million for grant assistance would be adequate to achieve our foreign policy objectives. The Department considers the attainment of our objectives in Berlin to be of a high priority. To this end we believe it essential to attain the goal of a further reduction of unemployment in Berlin by another 50,000 for the coming year. While it is our expectation that we will be successful in our negotiations to have the Federal Republic further increase its support to Berlin in 1956, we believe that U.S. aid of about the same level furnished in FY 1954 ($30 million) will be required. On the assumption of a greater share of the support of Berlin by the Federal Republic, we have in our estimate substantially reduced the pipeline beyond FY 1955.

Greece

The Department concurs in the original FOA estimate of $15 million for Greece.

Spain

The Department concurs in the estimate of $30 million for Spain and supports the views in the FOA memorandum on assistance to Spain being submitted to the Bureau of the Budget.

Turkey

The Department concurs in the estimate of $40 million for aid to Turkey. However, it should be pointed out that the Embassy at Ankara has reported that recent developments indicate that achievement of the force build-up desired in Turkey may not be possible on the basis of the amount of aid now programmed in FY 1954, or the $40 million requested for FY 1955.

United Kingdom

The Department concurs in the estimate of $75 million for the U.K. It is the Department's view that there is a commitment to the U.K. to request Congress to appropriate this amount to support the U.K. defense effort. Although the military assistance program provides for complete financing of the U.S. contribution to Plan K,[3] it

[3] For documentation on Plan K production of jet fighter planes in the United Kingdom, see volume VI.

is our understanding that the Secretary of Defense has not approved a policy to support Plan K. Accordingly, we believe that this estimate of $75 million required to enable the U.S. to fulfill its commitment should be included in the "one line item" until there is a U.S. position on financing Plan K for FY 1954 and FY 1955 and until negotiations are undertaken with the British as to the overall estimate of U.S. aid needed to support the desired level of U.K. defense build-up. Should these negotiations be successful, we would hope that a satisfactory U.K. effort in FY 1955 could be attained without requiring the full U.S. contribution to the cost of Plan K and the additional special $75 million program. In this case, the estimate to be justified before Congress should reflect any reduction under this amount that can be achieved.

Yugoslavia

The Department supports the revised estimate of $35 million for Yugoslavia. The provision of this amount of aid to Yugoslavia is a matter of importance to assure the continued development and maintenance of adequate defense forces.

Productivity and Technical Assistance

The Department in its informal comments did not support the FOA submission on this item as originally presented. However, it is now the plan that these programs should be phased out in a manner designed to preserve their past accomplishments. The Department concurs in the revised FOA planning, which takes this factor into account, and believes that these programs should be transferred to the local governments and OEEC during FY 1955.

Near East and Africa

Technical Assistance

This Department recommends $40 million for technical assistance for the Arab States, Iran, and Israel, and the independent states and D.O.T.'s in Africa. This amount would provide for continuation of going programs at present levels in most of the States, for an increase in the Egyptian program, and about $4 million for the D.O.T.'s.

Special Economic Assistance

The Department believes that in FY 1955 a program of $140 million, in addition to any FY 1954 unexpended balances, will effectively support our policies in the Near Eastern area. This estimate would provide $50 million for the Arab States, $40 million for Israel . . . .

The Department is of the opinion that in the case of Libya and the D.O.T.'s no special economic aid programs should be provided for those areas. Funds for Libya are directly related to our bases in that country and should be furnished from Department of Defense

funds. In the D.O.T.'s, the requirements are for investment funds which should be provided by the metropoles or by private and public lending institutions.

South Asia—Economic and Technical Assistance

The Department recommends a total program of $152.8 million for economic and technical assistance in South Asia distributed as follows:

($ millions)

	Tech. Asst.	Spec. Eco.	Aid Total
India	40.0	80	120
Pakistan	10.0	20	30
Afghanistan	2.8	0	[4] 2.8
Nepal			
Total	52.8	100.0	152.8

[4] The source text indicates that these three figures were combined data for Afghanistan and Nepal.

With respect to the programs for India and Pakistan the Department strongly believes that there must be maintained a 4 to 1 ratio in our aid to those countries both in the total and the technical assistance and economic aid components, and considers the ratio a major factor in dividing U.S. aid among those two countries.

Far East—Economic and Technical Assistance

The Department supports the estimate for aid to Korea ($200 million), Thailand ($5 million), and Indonesia ($5 million), and recommends a program of $65 million for Formosa.

With respect to Indochina and the Philippines, the Department supports the estimates of $30 million and $15 million respectively for the basic programs in those countries.

The Department does not support the supplemental request of $15 million for Indochina for an additional program of relief-rehabilitation. An initial start on this program is anticipated in the $30 million estimate and it is anticipated that legislative authority will be sought to permit using military funds for rehabilitation activities in the event hostilities are brought to a successful conclusion during FY 1955.

With regard to the supplemental program of $10 million for the Philippines, the Department recommends that $5 million be provided at this time. In the event that a sound program can be developed to utilize the additional $5 million before submission to Congress, the Department would wish to support an increase in this

program. It is essential that we be prepared to do all we can to assist the newly-elected Magsaysay government by providing such aid as can be effectively used to that end.

Latin-America—Technical-Economic Assistance

Technical Assistance

The Department supports the original request for $25.5 million insofar as that request relates to the Latin American republics. With regard to the amount included in this request to finance a program for the dependent overseas territories in the Caribbean, the Department is of the opinion that there should be such a program but is not prepared to make a recommendation as to a specific amount for this purpose.

Bolivia

The Department recommends that the initial request of $15 million be approved to finance a combined economic development and emergency relief program in Bolivia. It is the conviction of the Department that this amount is fully justified in relation to the situation now obtaining in that country.

Multilateral Programs

The Department of State supports the request of $11.4 million for contribution to ICEM, $13.5 million for contribution to the Children's Fund, and $18.8 million for contribution to multilateral Technical Assistance programs, and $71.0 million for contribution to UNKRA.

This Department recommends $30 million for contribution to UNRWA, to meet continuing relief needs and to provide additional funds required for the programming and negotiating of additional projects to carry on the reintegration of Arab refugees.

Other Programs

The Department recommends $6.5 million for the Escapee Program, to provide not only for care and maintenance but for assistance in resettlement in the U.S. under the Refugee Relief Act and in other countries.

The ocean freight subsidy program should, in our opinion, be confined to those states and areas (including Berlin) which will receive economic assistance in FY 1955.

Such mineral development projects that have merit should be financed from the country assistance programs and we therefore do not support the special Mineral Resources Program.

Officers of the Department are, of course, prepared to discuss the foregoing views should you feel this to be necessary.[5]

Sincerely yours,

FREDERICK E. NOLTING, JR.

[5] In a brief supplementary letter of Dec. 9, 1953, Nolting informed Dodge of two amendments to this letter. They were as follows: "The amount which this Department supports for contribution to ICEM is $11,737,000, rather than the $11,400,000 mentioned in my letter of December 6. For contribution to multilateral technical assistance programs, this Department recommends $18,845,812 for the United Nations Expanded Technical Assistance Program and $1,500,000 for the technical assistance program of the Organization of American States. The total request for multilateral technical assistance is therefore $20,345,812." (700.5 MSP/12-953)

700.5 MSP/12-1553

Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

SECRET WASHINGTON, December 15, 1953.

Subject: Discussions with Congressional Leaders Involving the Mutual Security Program for Fiscal Year 1955

It is understood that the discussions with Congressional leaders will involve the Mutual Security Program both on Thursday, December 17, and on Friday, December 18.[1] On the first day, I understand that there will be an overall discussion of the federal budget, of which the Mutual Security Program is a part, but that no detailed consideration of the Mutual Security Program is expected until the Friday session. It may be well, however, to be prepared on Thursday to make some general statements in connection with the need to continue the Mutual Security Program during Fiscal Year 1955, in order to carry forward our foreign policy objectives. At Friday's meeting, it will be necessary to go into the program in more detail and, if possible, to outline the Executive Branch's thinking with regard to (1) amounts of aid required, (2) method of financing, (3) the possible use of agricultural surpluses, (4) the possible use of loans, and (5) organization.

I do not believe it is necessary to do more than outline here the basic reasons for a continuation of the Mutual Security Program

[1] President Eisenhower opened a three-day meeting at the White House on Dec. 17, 1953 with the entire Cabinet, the legislative leaders, and numerous White House staff members present. The purpose of the meeting was to coordinate efforts and information concerning the President's forthcoming State of the Union message. A copy of the "Notes on the Legislative Leadership Conference December 17 through 19, 1953" is in the Eisenhower Library, White House Staff Secretary records, 1952-1961 along with "Supplementary Notes" of the Legislative Leadership Meeting(s) of Dec. 17 and 18, 1953. Mutual Security was discussed on Dec. 17 and more briefly on Dec. 18.

next year—a subject on which there is no disagreement within the Executive Branch. Those reasons are, in brief: (a) that the military strength of the coalition of free nations has not yet reached the point at which the United States can, in its own self-interest, cease to contribute toward strengthening the defensive capabilities of our essential allies; and further, that we have committed ourselves to do so by our acceptance of the NATO force goals in the 1953 Annual Review; (b) that there are certain areas of the world (for example, the Near East, Latin America, and South Asia) in which the United States, again in its own self-interest, should continue to help achieve political stability and a decent standard of living without which military strength and the capacity for local resistance against Communism are impossible; and (c) that this Administration has made the most exhaustive and searching analysis of the Mutual Security Program in all of its aspects in order to screen out and to reduce requirements to the minimum consistent with our vital interests, and through such analysis has managed to make substantial reductions in the amount of assistance which it considers necessary. This amount could have been further reduced had it not been for the urgent requirement to assist the French and the Associated States of Indo-China to mount and to continue the effort to win the war in Indo-China.

At the meeting on Friday, we expect the Mutual Security Program to be taken up in greater detail. As you are aware, there are certain problems and issues presently unresolved among the various interested agencies of the Government. While there is general agreement that the Mutual Security Program must be continued, the focus of disagreement is principally on the method of financing the programs and to a lesser extent on the level of certain programs. These differences should be considered under two categories—the military programs and the economic programs (including the technical assistance programs). The major issue involves the military programs.

In general, the Department of Defense, FOA, and the Department of State, with minor differences of view, agree both as to the level of worldwide requirements for next year and as to the method of financing such requirements. The Bureau of the Budget, on the other hand, while accepting in general the estimates of requirements submitted by the three agencies, take the position that (a) the level of expenditures projected by the operating agencies for Fiscal Year 1955 are higher than past experience justifies, and (b) the over-financing of the military programs in past years justifies a further sharp reduction in the amount which should be requested of the Congress for Fiscal Year 1955, over and above the substantial cutback already proposed by the Department of Defense. There

is no question that there has been very considerable over-financing of the military assistance programs in the past—that is to say, that unexpended funds from previous appropriations are sufficient to continue the flow of military end-item assistance to our allies for the next two to three years at least. However, it must be emphasized that we are greatly in arrears on deliveries, and that the arms which will be paid for from the unexpended balances are already destined to fill past commitments, thus leaving present and future requirements to be filled from funds not yet appropriated. The Budget Bureau has reviewed the Fiscal Year 1955 programs and has prepared its recommendations for the President. A comparison of these recommendations with the agency requests is set forth in the attached tables.

The Budget Bureau's recommendations raise the following issues with respect to obligational authority and levels of expenditures:

Military Aid

The Bureau generally accepts the figure of $2.1 billion as a reasonable statement of worldwide military requirements which should be programmed in Fiscal Year 1955 to meet our undertakings in NATO and other security arrangements, against which deliveries will be made over a period of several years. However, the Bureau has taken the position that the military end-item program needs new funds in the amount of only $1 billion in Fiscal Year 1955 for carrying out the program and that the remainder of the requirements should be initially financed by Department of Defense funds which would be reimbursed from subsequent military aid appropriations upon delivery of the materiel. This position obviously creates a domestic political hazard—the probable unwillingness of future Congresses to appropriate funds in greater amount than the request in Fiscal Year 1955—and a foreign policy hazard—namely, to convince our allies that we will in fact be able to honor present commitments by means of *future* requests for funds. Another point which is of particular significance foreign-policywise is that the Bureau, in its recommendation, allowed for an off-shore procurement program of only about $160 million compared to $600 to $700 million in the $2.1 billion program submitted by FOA. This proposed cutback in off-shore procurement will have severe repercussions in Europe, both in terms of the dollar positions of producing countries and their employment problems, and in terms of the maintenance of a war production base in Europe. It will also have an adverse effect in Japan in terms of the Japanese desire to earn dollars if they are to go into a rearmament program.

In general, State, Defense, and FOA do not quarrel with the objective of placing the Mutual Security Program on a more current

financial basis. However, we feel that the Budget Bureau's recommendation is too severe. It creates grave political hazards not only in regard to the matters mentioned above, but also in terms of the general political impact upon our allies of so severe a cutback in requested new funds. In our opinion, the placing of the military part of the Mutual Security Program upon a "COD basis" should be done gradually, not abruptly. Under the estimate of $2.1 billion, a long step would be taken in placing the program on a current basis. We have taken the position that this is manageable from a foreign policy point of view *provided* deliveries of equipment are accelerated. It is here that the Budget Bureau's contemplated limitation on expenditures has its effect. If we are successful, by Presidential order or through some other means, of catching up on our deliveries of equipment (approximately $5 billion of items delivered in Fiscal Year 1955 is a reasonable target), this will automatically raise the Mutual Security Program expenditure figure above that contemplated by the Bureau of the Budget. Any attempt, therefore, to freeze on a limit of expenditures under the Mutual Security Program for Fiscal Year 1955 below the expenditure estimate contained in NSC 149/2[2] ($6.3 billion) might have a very definite adverse effect upon our alliances, particularly NATO.

Economic Assistance (including Technical Assistance)

With some relatively minor differences, FOA and State are in agreement on estimates of economic assistance worldwide. The Bureau of the Budget has reduced this estimate by approximately 25 percent. We have gone back at them with additional material and explanations and I understand that the Budget Bureau staff has revised upward some of its estimates, notably Indo-China and Turkey. A part of the difference results from different projections of funds which can be expended and from a difference in estimated carryovers. On the whole, I believe that we can successfully negotiate with the Bureau of the Budget on the economic aid requirements on an item-by-item basis and can probably accept the result without undue worry.

Two major factors affecting economic aid, however, have not yet been fully worked out or agreed in the Executive Branch. These are the possible use of surplus agricultural commodities in substitution for other forms of economic assistance and the possible use of loans in lieu of grants.

On the use of surplus agricultural commodities, there is unanimity of view among the interested agencies on the objective to be achieved, but as yet no firm basis for decision on the extent to

[2] For documentation on NSC 149/2, "Basic National Security Policies and Programs in Relation to Their Costs," Apr. 29, 1953, see volume II.

which such surplus commodities can be used in substitution for economic assistance. The present thinking of the agencies concerned has produced a target figure of $1 billion in surplus commodities to be exported to friendly nations over a period of three years. This seems a feasible target and if achievable makes a considerable dent in the surplus agricultural commodities problem. However, the assumption that the sale of this amount of surplus commodities (approximately $300 million per year) for local currency, or alternatively the grant of such commodities, will reduce the need by equal amount of economic assistance is open to some doubt. No negotiations have been entered into with possible recipient countries to determine the kinds and amounts of surplus commodities which they in fact can absorb. Since the problem is largely one of the ability of recipient countries to sell the products on their local markets, negotiations of rather far-reaching character have to be undertaken before these estimates can become firm.

The question of the extent to which loans can be substituted for grant economic assistance is another point on which no firm conclusions have been reached. I believe some headway has been made in bringing about serious consideration of the proposal that a more liberal lending policy ought to be adopted by the U.S., probably through the Export-Import Bank. In the absence of any high level decision on this point, however, it is not possible at this stage to estimate the amount of grant assistance which could be taken up by loans.

On the question of organization within the U.S. Government to carry on a Mutual Security Program next year, the following outlines have emerged: (1) military assistance should include defense-support items such as Indo-China and other programs closely related to the maintenance of agreed force levels; (2) military funds should be appropriated to the Department of Defense; (3) in authorizing legislation or perhaps by Executive Order, the Department of State should have a strong voice in the programming of such funds and in the allocation of matériel; (4) beyond this, there is no unanimity of view with respect to organizational questions.

700.5 MSP/12-2453

Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

SECRET [WASHINGTON,] December 24, 1953.

Subject: FY 1955 Mutual Security Program

As you know, the President has approved the FY 1955 Mutual Security Program in the amount of $3,510 million, which is divided $2,500 million for military assistance and $1,010 million for bilateral and multilateral economic aid. This action followed your approval of Mr. Stassen's presentation to you of the proposed program on December 18.[1] The President's action implicitly approved the following points:

1. Military assistance is to be appropriated to the Secretary of Defense and shall include funds for Indo-China support, UK aircraft production and common use items for Yugoslavia.
2. Economic aid programs in Europe would be carried on in Berlin, Spain, Greece, Turkey and Yugoslavia.
3. With respect to the Near East and Africa, special economic aid programs in the amount of $130 million should be illustratively programmed for presentation to the Congress. These programs would be for Iran, Israel and the Arab States.
4. Contributions to multilateral organizations would be appropriated to the Secretary of State. An amount of approximately $135 million would be requested for contribution to the UN Korean rehabilitation program (UNKRA), the UN Palestine Refugee Agency (UNRWA), multilateral technical assistance programs of UN and OAS, and UN child welfare programs (UNICEF).

I am attaching for your information a table showing the proposed distribution of the $3,510 million for the FY 1955 Mutual Security Program.

[Attachment]

Table Prepared in the Office of the Special Assistant to the Secretary of State for Mutual Security Affairs

SECRET

FY 1955 MUTUAL SECURITY PROGRAM

($ Millions)

1. Military Assistance (Appropriated to Secretary of Defense)		
A. Regular MDAP		1596.8
B. Special Programs		
Indo-China support	800.0	
UK aircraft production	75.0	
Yugoslav common use	20.0	
NATO contributions	8.2	
		903.2
Total Military Assistance		2500.0

[1] Secretary Dulles had met with Stassen, Ohly, and Nolting at 6 p. m. on Dec. 18. The notation concerning this meeting is in Princeton University, Dulles papers, "Dulles' Appointment Book".

FY 1955 MUTUAL SECURITY PROGRAM—Continued

($ Millions)

2. Non-Military Assistance		
A. Economic Programs (Appropriated to the President)		
Europe		134.0
Near East and Africa		
Technical Assistance	40.0	
Special Economic Aid	130.0	
		170.0
Asia and Pacific		
South Asia	133.0	
Far East	116.5	
		249.5
Korea		231.0
American Republics		32.0
Administration		34.6
Miscellaneous Programs		23.9
Sub-total, economic programs		875.0
B. Multilateral Programs (Appropriated to Secretary of State)		
UNKRA	71.0	
UNRWA	30.0	
UN Technical Assistance	18.8	
OAS Technical Assistance	1.5	
UNICEF	13.5	
Undistributed roundoff	.2	
Sub-total, multilateral programs		135.0
Total, Non-Military Assistance		1010.0
Grand Total, All Programs		3510.0

MSA-FOA Director's files, FRC 56 A 632, box 8, "FY 1955 Program Estimates"

Memorandum by the Director of Foreign Operations (Stassen) to the Secretary of State[1]

CONFIDENTIAL [WASHINGTON,] January 30, 1954.

Subject: Presentation of the President's Foreign Operations Program for Fiscal Year 1955

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[1] Addressed also to the Secretaries of Treasury, Defense, and Agriculture, and to the Director of the Bureau of the Budget.

I

Pursuant to NSC Action No. 1006 at the 179th Council meeting on January 8, 1954,[2] the General Counsel of the Foreign Operations Administration Mr. Morris Wolf, is proceeding to draft the necessary specific legislation for the 1955 Foreign Operations Program in consultation with the counsel of the other Departments concerned, and in consultation with Congressional leaders, with the objective of obtaining the approval of the Secretary of State, the Secretary of the Treasury, the Secretary of Defense, the Secretary of Agriculture and the Director of the Bureau of the Budget, and the Congressional leaders, before introduction of the bill in Congress.

II

In accordance with the outline presented to the National Security Council and the President, the specific legislation is being drafted to carry out the following principles:

1. The entire program to be known by a new name, such as the "Freedom Fund."
2. All new obligational authority for military, economic, technical, multilateral and surplus food foreign assistance to be made to the President as a part of the "Freedom Fund," or other similar new designation.
3. Include in the program covered by the "Freedom Fund" all unexpended balances representing programs previously authorized by the Congress but incompleted, as well as the new funds appropriated for the "Freedom Fund."
4. The primary responsibility for the administration of the military assistance portion of the program to rest in the Secretary of Defense and to be carried on in accordance with the policy guidance of the Secretary of State.
5. Authority to be obtained from Congress for the merging of the appropriate portions of the new obligational authority and of the old obligational authority with the Department of Defense and Army, Navy, and Air Force funds, as appropriate, when such funds are allocated by the President, and when such merger is approved by him.
6. Provision to be made for over-all coordination of the entire program—military, economic, technical, multilateral and East-West trade—as now being carried out by the Foreign Operations Administration, but that preparation be made to effectively imple-

[2] The NSC in Action No. 1006, "Presentation of the FY 1955 Foreign Assistance Program," noted Stassen's views as to the presentation to Congress of the fiscal year 1955 foreign assistance program and his decision to "obtain the approval of the Secretary of State, the Secretary of Defense, the Secretary of the Treasury, the Secretary of Agriculture, the Director of the Bureau of the Budget, and the Congressional leaders, for necessary specific legislation and other detailed steps to carry out the foregoing views." A copy of this NSC Action is in the S/S–NSC files, lot 66 D 95, "Records of Action by the National Security Council, 1954".

ment a different method of coordination if Congressional opinion indicates a preference. This question of procedure is not to be made an Executive Branch issue with Congress and concentration will be upon the substance of the program.

III

The broad objectives of the program will be appropriately expressed to indicate the following:

1. *Support the security* of our country and of friendly cooperating nations by providing necessary arms, equipment, training and essential economic strength under the defense policies of the Secretary of Defense.
2. *Promote conditions of peace* by coordinated efforts in diplomatic, military and economic affairs under the foreign policy guidance of the Secretary of State.
3. *Open up opportunities* for our people and for other free peoples through technical cooperation, and through facilitating private resource development, educational exchange, trade, and investment.
4. *Safeguard the liberty* of our citizens by participation in the constructive and humanitarian programs of the United Nations and of other multi-national organizations.

IV

If you are in disagreement with any of these principles or objectives, I would appreciate being advised so that any difference of view can be taken up in the National Security Council and resolved before formal presentation of the 1955 program to Congress.

MSA-FOA Congressional files, FRC 57 A 709, box 170, "Congressional Presentation"

The Acting Director of the Bureau of the Budget (Hughes) to the Director of Foreign Operations (Stassen)

CONFIDENTIAL [WASHINGTON,] February 4, 1954.

MY DEAR MR. STASSEN: Thank you for sending the Bureau of the Budget your memorandum of January 30, 1954 on "Presentation of the President's Foreign Operations Program for the Fiscal Year 1955."[1] Our understanding from Mr. Dodge is that no decisions were made in the January 8 NSC meeting on your proposals and that they will require further interagency consideration. We appreciate that you are expected to take the initiative in interagency work on the various problems involved.

As you will recall, Mr. Dodge had personally discussed a series of these problems with the President, Secretary Dulles, Under [*Deputy*] Secretary Kyes, and yourself. In view of this and the fact that Mr.

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[1] *Supra.*

Dodge will be back in Washington shortly, we urge that no decisions be made on your proposals until Mr. Dodge has had a chance to react.

In the meantime, staff of the Budget Bureau are currently discussing with FOA and Defense Department staff possible arrangements relating to merger of MDAP and regular Defense appropriations which was proposed in II,5 of your memorandum. The Department of Defense has submitted draft appropriation language for this purpose in December as a part of a submission relating to supplemental appropriations.

The Budget Bureau will be in a position to outline its view on the proposals in your January 30 memorandum very shortly after Mr. Dodge returns.

Sincerely yours,

ROWLAND HUGHES

MSA-FOA Director's files, FRC 56 A 632, box 8, "State Department 1954"

The Acting Secretary of State to the Director of Foreign Operations (Stassen)[1]

CONFIDENTIAL WASHINGTON, February 11, 1954.

DEAR HAROLD: I should like to reply in some detail to your memorandum of January 30, 1954 to the Secretary of State, Secretary of the Treasury, Secretary of Defense, Secretary of Agriculture, and the Director of the Bureau of the Budget, concerning the presentation of the Mutual Security Program for Fiscal Year 1955.[2]

At the outset, I want to assure you that we agree on the need to proceed as rapidly as possible in the formulation of both the legislation and the necessary illustrative programs for presentation to the Congress at as early a date as possible. I understand that the drafting of the legislation and the preparation of programs and a presentation book are proceeding as a joint effort between members of your staff, Defense Department and State Department officers. I realize, however, that a failure to agree upon an Executive Branch position with respect to certain of the issues raised in your memorandum would, at some point, impede the work now going on. I am therefore anxious to give you a complete statement of the views of this Department on these issues so that we may proceed as

[1] A number of notations by Stassen appear on the source text. The first is at the head of the document and reads: W[illiam] M. R[and] Believe my agreement this date with Roger Kyes will cover this. HES[tassen]". Rand was Deputy Director of Foreign Operations.

[2] *Ante*, p. 678.

rapidly as possible to the formulation of a program for presentation to the Congress.

With regard to the name of the program, it is my view that the present name—The Mutual Security Program—is an adequate and acceptable descriptive title. I think that a change to the title, "Freedom Fund", would be confusing and possibly misleading. Since the program represents by and large a continuation of many of the activities carried on in the past—although some activities have been eliminated and others sharply curtailed—I do not believe that a change in the title would be helpful in gaining for the program additional public or Congressional support.[3]

I have three comments with regard to your paragraph II 2. I had understood that it was agreed between the agencies involved that funds for carrying on the Mutual Military Program would be sought as a direct appropriation to the Secretary of Defense, rather than to the President as you suggest. This question is not a matter of direct concern to this Department, but it has been my understanding that the matter had been agreed, based on the consideration that the Mutual Military Program should be clearly identified as a part of our national defense effort. What is of direct concern to this Department, however, is the absolute necessity, from the foreign policy point of view, that there be provided either by legislation or by Executive Order the means for assuring adequate guidance and direction in the programming of the funds in order that the Mutual Military Program will fulfill its important foreign policy purposes.[4]

My second point with regard to this section of your memorandum concerns the surplus agricultural disposal bill. I believe that the proposed legislation for the disposal overseas of $1 billion of surplus agricultural commodities over a three-year period, presently being developed on an interdepartmental basis, should be put forward as separate legislation, rather than being incorporated in the Mutual Security bill. As a separate piece of legislation, the funds would be requested separately from those for the Mutual Security Program. My reason is twofold: the first is that I think it would be politically helpful and wise to move ahead as rapidly as possible in an effort to assist in solving the problem of surplus agricultural commodities and that separate legislation for this purpose could and should be passed prior to the passage of the Mutual Se-

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[3] In the margin next to this paragraph appears the following notation: "President has agreed with Vorys[,] Halleck & others to new name".

[4] In the margin next to this paragraph appears the following notation: "Agreed now all to Pres & Meyer when activated to Defense. Leg [?] automatically assures this." The reference to Meyer is presumably to Clarence E. Meyer, Director of U.S. Operations Mission at Vienna.

curity bill; and second, I think that from the foreign policy point of view it is preferable not to have the Surplus Food Disposal legislation confused with the Mutual Security Program. In this general connection, it is important to note the decision that was reached at Governor Adams' office on February 5 that an Administrative Assistant to the President should be appointed, whose responsibility would be to see that the views of the Executive Branch are coordinated on the whole range of surplus agricultural issues, including the question of administration of the resulting policies and programs.[5]

My third comment concerns the multilateral programs. It is my understanding that the original decision to include the requests for contributions to multilateral organizations in the appropriation to the Department of State was based on the expressed desire of the Appropriations Committees. However, after discussions with members of your staff, we agree that it is preferable to request these funds as an appropriation to the President, provided consultations with appropriate committee chairmen indicate that they are willing to go along with this procedure. In any event, we should not fail to coordinate the activities of the multilateral programs with similar activities carried on bilaterally between the United States and other nations.

I agree with the recommendations in your paragraphs II 3 and II 4, except as modified by the above comments.

With respect to paragraph II 5, this Department has no comment on the question of merging of funds, provided we can be furnished adequate reports on the status and progress of the military programs.[6]

Regarding paragraph II 6, I agree that preparations for presentation to the Congress should be made on the basis that the Foreign Operations Administration should coordinate the programs as at present. I also agree with your view that the question of organization and coordination should not be made an Executive Branch issue with the Congress and that the main concentration should be upon the substance of the program.

In paragraph III you list as broad objectives of the program what appear to me as objectives of the entire United States Government's efforts in the field of foreign policy. While, of course, the

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[5] In the margin next to this paragraph appears the following notation: "Even though legislation is separate & Spec rep at Paris coordinates Domestic and Foreign—believe FOA can best implement the foreign in Bolivia, Pakistan, Libya, East Germany, Yugoslavia, etc. etc." The "Spec rep" under reference was the Special Representative in Europe for Foreign Operations.

[6] In the margin next to this paragraph appears the following notation: "Now agreed with Kyes."

Mutual Security Program contributes to our attainment of these objectives, I should think our presentation to the Congress should be in terms of the specific support this program provides to our effort to obtain these objectives, principally in the fields of military and economic assistance and technical cooperation. I think it would be a mistake to convey the impression that these principles are peculiar to the Mutual Security Program and I would not favor so broad a statement of the objectives of that program either in the draft legislative bill or in the presentation to the Congress. This comment applies particularly to objectives No. 2 and No. 3, in the promotion of which several governmental agencies and departments participate. So far as the administration of the program is concerned, I feel that all agencies of the U.S. Government involved in this program should work together to promote these objectives, but that the division of responsibility between them should continue as at present.

In order that these matters may finally be worked out among the interested agencies of the Government, I believe that a meeting of the principal officers concerned should take place at an early date in order that the preparation of this program for presentation to the Congress can move forward rapidly.[7]

Faithfully,

BEDELL SMITH

[7] At the bottom of the source text Stassen wrote: "WMR Believe we are now sufficiently on the track so that the meeting of principles can be deferred until Glen Lloyd and I return." Lloyd was Deputy to the Director of Foreign Operations.

S/S-NSC files, lot 63 D 351, NSC 5407 Series

Report Prepared by the Foreign Operations Administration[1]

TOP SECRET [WASHINGTON,] March 11, 1954.

NSC 5407 Part 3

THE MUTUAL SECURITY PROGRAM

Status as of December 31, 1953

[Here follows a three-page table of contents.]

[1] This report is a part of NSC 5407, "Status of United States Programs for National Security as of December 31, 1953," a collection of 11 reports prepared by various executive agencies in February and March 1954. The Mutual Security portion of NSC 5407 was noted by the National Security Council at its 188th meeting, Mar. 11, 1954. (S/S–NSC files, lot 66 D 95, "NSC Actions—Action No. 1059") For additional documentation on NSC 5407, see volume II.

PROGRAM HIGHLIGHTS

The six months ending December 31, 1953 witnessed marked but spotty progress toward the major objectives of the Mutual Security Program: building military strength of the free world, maintaining economic stability, promoting economic development, and, on occasion, mitigating financial crises. NATO ground forces and Navies met goals, but still were below desired standards. Air Forces lagged behind schedule. The *European* economic picture was considerably improved in comparison with 1952, although the rate of economic growth is still inadequate to meet long-range civilian and military needs. In the *Near East,* deterioration of the *Iranian* situation was arrested; economic development showed progress in *India* and *Pakistan.* Demands of economic development programs in *Greece* and *Turkey* threatened to detract from continued budget support for military forces. The Arab-Israel deadlock continued unabated, and no appreciable headway was made on the Palestine refugee problem. The war in *Indochina* continued to dominate *Far Eastern* developments. On the economic side, declining raw material prices threatened economic stability in *Southeast Asia*—notably in *Indonesia*—and *Japan's* economic problems assumed new urgency in view of the U.S.-Japanese military assistance pact and Japan's decision to increase her defense forces. In *Latin America,* the Milton Eisenhower report focused new attention on the area's development needs and pointed the way toward broader-gauge U.S. action.

Other major developments during the reporting period included:

1. *A new program focus and emphasis*—exemplified by FY 1955 budget proposals which virtually place the NATO military aid program on a maintenance basis, terminate most economic aid to NATO countries (except Greece and Turkey), and intensify the drive toward economic development in the underdeveloped areas.
2. *MDAP shipments to all areas in 1953 were $3.8 billion,* compared with $4 billion for all previous years.
3. *New emphasis on special food programs* to relieve food emergencies abroad from U.S. excess stocks, under Section 550 of the Mutual Security Act and under the Famine Relief Act. Limited experience indicates that food grants can contribute importantly to U.S. objectives where food is genuinely the primary need (Pakistan, East Germany, Boliva). Emergency food grants have proved to be no substitute for basic increases in food production abroad; and the *volume* of such grants is unlikely to be large enough to solve the U.S. agricultural surplus problem.
4. *Renewed evidence of the vitality of Western Europe.* Economic growth—which in 1952 was almost monopolized by Germany—was more broadly based in 1953. The 4% rise in GNP was double the rate of increase in 1952.
5. *Levelling-off in defense expenditures and defense production* makes it apparent that incorporation of German effort into Euro-

pean defense is of paramount importance in breaking through the present defense expenditure plateau and in utilizing the untapped German and other European military production potential.

6. *Continued unsatisfactory volume of U.S. private foreign investment* points up urgency of measures—such as those recommended by Randall Commission[2]—to provide incentive to such investment.

7. *The economic impact of falling commodity prices* on the economies of raw material producing countries. The near-catastrophic effect of sudden and sharp price fluctuations on Indonesia, Bolivia, and similar countries forcibly illustrated the need for measures to insure greater stability in world commodity prices and the need for greater diversification of the economies of producing countries unduly dependent on a small number of export commodities.

8. *Increasing unrest within the Soviet Bloc* offered an opportunity to broaden the scope of the Escapee Program, hitherto largely confined to Europe.

9. *Extensive reorganization within FOA*, both in Washington and in the field, has enabled (a) more intensive attention to the entire range of economic problems which affect attainment of MSP objectives in each region and country; (b) increased decentralization of responsibility to the field; and (c) a 25% reduction of FOA overhead in Washington and Europe while the number of actual workers in the field increased by 35%.

[Here follow two charts: one on projected declines in Mutual Security Program aid levels for fiscal year 1955; the other on MDAP shipments for calendar years 1950–1953.]

EUROPE

A. THE MILITARY DEFENSE OF WESTERN EUROPE

1. NATO Countries and Germany

a. *NATO Objectives and Forces*

The NATO Military Committee has stated (MC 45, December 1952[3]) that the NATO military buildup is "designed to fulfill two purposes; firstly, together with the complementary threat of Allied atomic air bombing, to deter the Soviet from going to war; and secondly, in the event of war, to provide sufficient initial protection to the NATO area to enable mobilization and expansion of the overall power of the Treaty Nations to take place". The present military objective of the U.S. is, in consonance with NATO defense plans, to press for the early effective organization and readiness of armed forces of the EDC, including The Federal Republic of Germany.

These objectives remained basically unchanged during the period under review; and efforts were continued to raise, organize, equip,

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[2] For documentation on the Randall Commission, see pp. 49 ff.

[3] For documentation on U.S. interest in the implementation of the reorganization of NATO approved at Lisbon, and in the continued strengthening of Western European defense, see vol. v, Part 1, pp. 1 ff.

train and maintain the forces specified as necessary for the defense of the NAT area in defense plans approved by NATO. The necessity of maintaining and improving the combat effectiveness of forces in being was emphasized, together with the provision for necessary further growth through inclusion of German forces in the NATO defense complex. Substantial progress toward this latter objective was precluded by failure to conclude firm plans for German participation.

The force goals established by the 1952 Annual Review and the forces actually in being as of December 31, 1953, are shown below. In addition the table indicates the new force goals set by the 1953 AR, showing forces firmly agreed to for 1954; tentatively established for 1955; and provisionally set for 1956.

NATO Force Goals (excluding U.S. and Canada)

	Goal 12/31 1953	Forces in being 12/31/53	Goal 12/31 1954	Goal 12/31 1955	Goal 12/31 1956
Army	90⅓ Div.	89⅔	93	94⅔	95
Navy	1326 Combat Vessels	1350	1531	1667	1737 Combat Vessels
	238 a/c	232	292	304	280 a/c
Air Force	4292 a/c	3990	4800	5454	5556 a/c

1953 NATO Army and Navy goals were met quantitatively though not qualitatively; but there were some Air Force shortfalls, mainly in France, the U.K. and Italy. Despite generally adequate defense budgets, isolated shortfalls were attributable to lagging expenditures or inadequate budgetary provisions, e.g. to some extent in the Netherlands, Portugal, and in Italy where budgetary limitations with regard to the Italian air force were so serious as to compel the U.S. Defense Annual Review Team to recommend shifting funds from other services if the necessary addition to total defense expenditures could not be achieved.

The major 1954 addition to the Army force goals is 1⅓ Dutch divisions; other contemplated additions to Army strength being almost entirely qualitative (e.g. support units). Navy and Air Force plans contemplate moderate further expansion and some modernization.

b. *German Participation*

Consummation of the German force buildup plan awaits ratification of the EDC treaty. The most recent NSC review of the German

defense contribution (NSC 160/1)[4] uses January 1, 1954 as the planning date for EDC ratification. Since this schedule has not been met, substantial slippage in activation and training of German units, as projected in the NSC study, must be anticipated. Force planning is based on the ultimate need for 12 army groupements, 1,326 front-line aircraft, 140 naval vessels, and proper support forces. The buildup is planned as essentially a two-year buildup, with some exceptions. Meanwhile, there have been formulated the following tentative December 1954 German force goals, having status only as JCS approved planning goals for development of the MDA program through FY 1954: Army—7 Divisions; Navy—56 Combat Vessels and 8 Aircraft; Air Force—978 Front-line Craft.

Preliminary cost estimates for the Germany buildup were included in the Financial Appendix to NSC 160/1. These took account of direct military costs, U.S. and U.K. support costs, costs of other troop support, infrastructure, EDC, commissariat expenses, Berlin contribution and other national costs. The Appendix estimated that Germany might reasonably be expected to make a defense contribution of about five-sixths of the total cost of over $14 billion (which includes $1.6 billion already programmed as U.S. military assistance).

However, the Germans have now submitted to the Ad Hoc Committee of the EDC a financial and utilization plan which estimates buildup costs far in excess of those shown in the Financial Appendix. These estimates, which total about $15.4 billion for a group of expenditures computed in the NSC paper as costing $7.2 billion, are currently being studied by the Ad Hoc Committee. U.S. authorities in Bonn feel that the estimates in the Financial Appendix were extremely conservative, and that actual costs will be somewhere between these estimates and the estimates the Germans themselves are putting forth.

c. *Impact of the Mutual Defense Assistance Program on NATO and Germany*

(1) *Matériel Programs*

Not all the NATO forces accepted at the 1953 AR, nor all of the German forces envisioned in the JCS force base, are supported by the FY 1950–54 MDA programs. These programs are geared to support the following:

	NATO	Germany
Army	93⅓ Divisions	7 Divisions
Navy	400 Combat Vessels	24 Combat Vessels

[4] For documentation on NSC 160/1, "U.S. Position With Respect to Germany," dated Aug. 17, 1953, see volume VII.

	NATO	Germany
Air Force	139 Maritime Aircraft 2994 Frontline Aircraft	8 Maritime Aircraft 978 Frontline Aircraft

These forces will be supplied not only with initial unit equipment to meet screened deficiencies, but with certain maintenance, training and attrition equipment as well as limited reserves of ammunition and equipment.

(2) *Deliveries*

In dollar value terms, approximately 44% of the funded programs have resulted in shipments of matériel to NATO and Germany, i.e. $13.5 billion programmed and $6.0 billion shipped. This included shipments to the German stockpile which totalled $.4 billion. In the last six months of calendar 1953, shipments amounted to $1.1 billion, almost 20% of total shipments to date. In terms of major items of equipment, the Army has delivered almost 9,000 tanks, 17,000 combat vehicles and 1.3 million small arms and machine guns out of programmed totals of 10,000, 20,500 and 1.7 million respectively. The Navy, due to the long lead time involved in production of vessels, had still to deliver over 50% of its program, principally in the mine-vessel category. The Air Force similarly had about 50% of its program to deliver.

Recent cables from USRO point out that the rate of deliveries of MDAP end-items is lagging below the $350 million monthly level which the U.S. Government had estimated in connection with the 1953 Annual Review. The cables "strongly urge immediate high level consideration of deliveries situation", because of the possibility that current delivery rates might "cast serious doubt on reliability of U.S. forecasts and . . . .[5] lead to misinterpretations of U.S. policy." However, since the U.S. delivery estimate was based upon European capacity to effectively absorb the equipment, the U.S. is currently conducting studies to determine if in fact additional capacity exists warranting an increase in delivery levels.

(3) *Shortages*

The Department of Defense is currently undertaking another report, similar to that prepared in February of 1953 by USEUCOM with SHAPE participation, on the status of matériel shortages. Preliminary reports indicate the following items to be of most concern:

[5] Ellipsis in the source text.

Army—Shortages of tanks, ammunition and Howitzers previously constituted serious problems. These shortages have been largely overcome by recent deliveries; however, a small shortage still exists in self-propelled artillery.

Navy—Deliveries of minesweepers have lagged behind forecasts. The present delivery schedule is considered firm, and it is believed that the slippage which has occurred in past forecasts will actually work to the benefit of NATO by allowing a more gradual buildup. Current shipment schedules will largely complete delivery in calendar 1954 of aircraft and ammunition programmed in FY 1950–53. Deliveries in electronics, considering lead times, are improving, and in most cases are compatible with the countries' current ability to absorb.

Air Force—Shortages in spare parts and ground handling equipment for aircraft have in some instances hindered the operational training programs. Delay in deliveries of RF–84F aircraft is postponing the activation of some tactical reconnaisance units in NATO.

Electronics Equipment—The lack of an established aircraft and warning system within the NATO area has resulted in the electronics and communications equipment being programmed by country rather than in accordance with the requirements of an area system. In addition, lack of facilities and training personnel have prevented the effective use of electronics and communications equipment already delivered. This latter problem has, in part, been corrected as a result of surveys conducted by the Department of the Air Force.

(4) *Capability to Absorb*

This was cited in NSC 161 as an emerging problem; however, it has improved and shipments previously suspended have been released for delivery.

New storage facilities are being constructed, but it is not yet clear that they will be able to keep abreast of the increased flow of deliveries. As substantial quantities of MDAP items are delivered, the capabilities of the NATO countries to maintain this equipment will be taxed to the utmost. A SHAPE plan, relating to the entire NATO supply and logistics system, and including the establishment of a central storage depot complex, will be ready for submission to member governments for their consideration early in 1954.

(5) *Adequacy of Reserves*

The ultimate target for war reserves of equipment and ammunition for the NATO country forces is to achieve the capability of covering the first 90 days of a war. No war reserves in either ammunition or equipment had been provided in programs previous to FY 1954. The refined MDA program included sufficient ammunition to provide for a 90-day level for U.S.-provided weapons in all services. In addition the Army provided for 90 days war reserve of equipment for selected items.

Subsequent program adjustments have reduced the level of reserves which can be provided from the FY 1954 program.

(6) *Maintenance*

The standard of maintenance of MDAP material has varied by country from poor to good. Primary problem areas have been in spare parts, special tools, and test equipment, all of which are being delivered in large enough quantities to enable NATO countries to make headway toward raising their standards of maintenance. Nevertheless, certain critical shortages, such as spare parts and testing equipment, impair adequate maintenance.

(7) *Training*

By the end of FY 1954, the U.S. will have fulfilled the greater portion of its training obligations for NATO countries. Nevertheless, the deficiency in unit training is serious and unless corrected will seriously hamper the effectiveness of NATO forces. Plans are being formulated to commence a large training program in Germany for all services, once EDC is ratified.

(8) *Construction*

National military construction programs appear to be keeping abreast of requirements with minor exceptions. The multilateral military construction program (infrastructure) is similarly making rapid progress. As of December 31, airfield construction was over ⅔ completed, while construction of communication facilities, fuel pipelines, naval facilities, etc. was also making significant strides. With the exception of a few relatively insignificant areas, the infrastructure program as a whole was in phase with the buildup of NATO forces and was able to meet fully their requirements under peacetime or wartime conditions.

d. *European Financial Support and Defense Production*

(1) *Defense Expenditures*

[Here follows a chart illustrating NATO European defense expenditures for fiscal years 1950–1955.]

In accepting the principle of planning for the "long haul", in the 1953 Annual Review, the NATO countries concentrated on realistically adapting both force and expenditure goals to politico-economic capabilities. Since the force goals agreed to in the 1953 AR were felt by member countries to be close to the ceiling of capabilities, the effect is a leveling off in planned defense expenditures, in absolute terms. The AR agreed (C–M (53) 166 Final)[6] "that for the three years to be covered by the 1954 Annual Review it is reasonable to plan on the assumption that defense expenditures on NATO forces

[6] Not printed; for documentation on the consideration of the 1953 Annual Review at the Twelfth Session of the North Atlantic Council at Paris in December 1953, see vol. v, Part 1, pp. 454 ff.

will be required at approximately the present level." For the longer-range outlook, the Council did indicate some hope—as a maximum goal—that defense expenditure increases proportionate to CNP might be possible, although recognizing that "any substantial increase in the proportion of resources devoted to defense seems unlikely". Actually, defense expenditures of NATO countries (excluding U.S. and Canada) totalled $11.3 billion in FY 1953, more than double the $5.3 billion of FY 1950, and are expected to level off at about $11.7 billion in both FY 1954 and 1955. The proportion of GNP devoted to defense expenditures rose sharply from 5.5% in FY 1950 to 9.1% in FY 1953 and is now leveling off at the same rate in FY 1954, with a slight proportionate drop to 9.0% anticipated in FY 1955.

The main uncertainty posed by this prospect is the problem of the *future recurring cost* burden to maintain agreed forces. This problem was brought into focus for the first time in the 1953 AR, and will hereafter receive major consideration and analysis in the Annual Review process. The 1953 analysis of this problem is not yet available; but a rough estimate of the recurring costs, *exclusive of replacement for obsolescence,* is about $10 billion. In addition, appreciable expenditures will be required over the next few years for "completion of the buildup as now planned", and for qualitative improvements in existing forces. Finally, the factor of obsolescence cannot be ignored and, if the cost of the initial buildup is any criterion, will run to very substantial figures even if spread over a considerable time span. It is doubtful, therefore, that continuing the present levels of country defense budgets will prove adequate to maintain the force levels at the accepted force goals.

(2) *Defense Production*

(a) *NATO countries*

Expansion of the European defense production base has been rapid during the past three years, though it is not possible to measure this expansion with any precision. Improvement has been both quantitative and qualitative. New plants have been built, and old plants have been re-equipped to produce modern weapons efficiently. European deliveries for defense hard goods financed with *indigenous funds* (i.e. exclusive of OSP) increased from $1.1 billion in FY 1951 to a current annual rate of almost $3 billion in FY 1953 and 1954. With few exceptions, such as ammunition facilities, where expansion of capacity to meet wartime needs has been undertaken, more European production capacity exists than can be utilized with the limited funds available. Activation of any significant additional part of this unused capacity is to a large extent dependent on German defense expenditures. The Financial Appendix to NSC 160/1 indicates that German matériel expenditures from 1953-1956 might be $375 million in other EDC countries and $670 million outside of EDC—mostly in U.K.

U.S. offshore procurement for MDAP, which supplements European defense budget financing of military production, has become an increasingly important factor—supporting in FY 1954 an estimated 1/7 of the overall European defense production base. Contracts placed and expenditures were as follows, with orders placed in 15 countries for items such as vessels, aircraft, tanks, artillery, ammunition, and electronics:

	Contracts Placed	Expenditures
FY 1952	$629 million	$3 million
FY 1953	1,500 million	195 million
FY 1954 (est.)	700–800 million	486 million

OSP serves a triple purpose: (a) providing required items of major matériel, comparable in quality to, and often at lower cost than, U.S. items; (b) enabling a fuller utilization of the existing European defense production base, and an important expansion of this base, particularly in the case of ammunition capacity; (c) providing a major source of dollar exchange.

Among the factors considered in awarding contracts in the offshore procurement program have been the NATO Correlated Production Programs (CPP) which thus far have been developed for selected types of army ammunition, aircraft, artillery, vehicles, electronics equipment, and ships. With few exceptions, notably aircraft, these programs have not yet brought about any significant degree of industrial integration in NATO Europe and have been primarily an exercise in the tabling of individual country intention. There is hope, however, that from this meager beginning more truly integrated NATO defense production efforts will result in the future. Excellent individual initiative is being displayed by Norway and Denmark, which are in the process of correlating and integrating certain of their spare parts programs. Efforts to *standardize NATO weapons* have made some progress recently, with work on a standard 40 mm AA gun and agreement to accept the 30 cal. rifle as NATO standard.

The United States has given varying degrees of support to these programs through offshore procurement, considering each item in the program on its own merits. To date, CPP includes a $560 million joint aircraft program (1675 aircraft), with the U.S. covering about half the cost with FY 1953 MDAP funds. The recommended FY 1954 CPP includes $620 million for 24 selected items of army equipment, and $840 million for 17 ammunition items. U.S. support of about $612 million was recommended; and current U.S. plans earmark $438 million, mostly for ammunition.

(b) *German Military Production*

The vast and growing economic potential of the Federal Republic thus far supplies only the relatively minor defense contribution represented by occupation costs. Though total industrial production is well above prewar levels, and NSC 160/1 Financial Appendix estimates potential German matériel production at $2 billion, almost no production is currently being tapped for military purposes.

While some slight progress was made during the last six months in initiating defense production—Allied control measures restricting German output have been modified to clear the way for placing about $50 million of OSP orders—discouragingly little progress has been made in the direction of substantive planning for the eventual German contribution to Western defense production. Complicating factors include not only Allied restrictions and French fears but the question of timing—i.e. the choice between a *rapid* force buildup, requiring immediate provision of equipment once EDC is ratified, and a slower buildup in which German defense production could play a greater part.

The eventual pattern of military production in Western Germany will depend in some measure on the strategic and security concerns reflected in the EDC treaty. By agreement, there will be no manufacture of atomic, chemical, and biological weapons in Germany; while production of certain naval vessels, mines, propellants, guided missiles, and military aircraft can only be undertaken after unanimous agreement of the EDC council. No production of aircraft is planned, though a large capacity exists for the manufacture of aircraft spare parts and ground supporting equipment. Production of finished combat vehicles is limited by the two or three-year lead time required. However, German industry can produce transport vehicles, telecommunications equipment, and radio receivers and transmitters in large volume. Ammunition output could get underway rapidly. Production of smaller type naval craft is underway.

Statement Submitted by Director of FOA Without Evaluation by Dept. of Defense

e. *Effectiveness of NATO Forces*

USEUCOM has presented to the JCS a report on effectiveness of NATO forces, which is currently being analyzed. The Department of Defense is submitting separately to the NSC the results of this analysis, in the form of an annex to this report on the subject "Effectiveness of Forces".

The views of the NATO Military Committee provide another appraisal of the effectiveness of NATO forces in relation to their mission. . . .

[Here follow three paragraphs indicating in part that the Committee considered in December 1952 that the Alliance had insufficient forces to discharge its mission.]

(End Statement Submitted Without DOD Evaluation)

2. Non-NATO Country Programs Bearing on the Military Defense of Europe

Yugoslavia, Spain, and Austria have programs, supported by U.S. aid, which assist in and add to the general military defense buildup of Western Europe.

a. *Objectives and Forces*

The U.S. military objective in Yugoslavia is to assist in the equipping and training of military forces which are essential to resist external aggression, and are of direct assistance in defense of the NATO area. To these ends the U.S. is supporting, through its FY 1950–54 MDA programs, only a small portion of the total military force of Yugoslavia which, in terms of land forces, is the largest in Europe this side of the Iron Curtain, comprising as it does 28 divisions. A military effort of the size which the U.S. desires, cannot be maintained through Yugoslav effort alone.

The U.S. objective for *Spain* is the development of the military potential of Spain's strategic position for the common defense of the NAT area. Militarily, this objective is to be achieved by two courses of action: (1) development and use of Spanish air and naval bases by the U.S., and (2) strengthening Spanish armed forces through provision of MDAP assistance. Three related agreements to effect these courses of action were signed by Spain and the U.S. in September 1953. Included in the base program, of which only the local currency portion is financed by MSP appropriations, are 7 air bases and 4 naval bases. The MSP economic program is designed partially to offset the inflationary impact of base construction activities. While preliminary negotiations had been undertaken and contracts let, no actual construction had been undertaken as of the date of this report. The total size of the combined economic assistance and military assistance programs, exclusive of the military base construction dollar costs, has been estimated at $465 million to run over a period of 4 years. For FY 1954, MDAP aid is projected at $141 million, economic assistance at $85 million.

The U.S. military program for *Austria* has been confined to provision of a stockpile for a post-treaty army. Economic aid has been terminated. The status of National Security objectives is fully summarized in NSC 164/1.[7]

b. *Impact of U.S. MDAP Assistance*

Programmed Forces

The MDA matériel programs through FY 1954 are geared to support the following forces:

	Yugoslavia	Spain	Austria
Army.....	8 Inf. Div	1 Inf. Div. 2 AAA Reg	2 Constabulary- type Div.

[7] For documentation on NSC 164/1, "U.S. Objectives and Policies With Respect to Austria," dated Oct. 5, 1953, see volume VII.

	Yugoslavia	Spain	Austria
Navy	13 Combatant Vessels	22 Combatant Vessels 1 Marine Reg.	—
Air Force	263 Frontline Aircraft	3 Day Fighter Sqds.	—

Deliveries

Shipments to the *Yugoslav* armed forces, through December 31, totalled $319 million, out of a total program of $780 million, with $98 million occurring during the period July–December 1953. A first token delivery of $15 million, out of a program of $141 million, was initiated for *Spain* in October of 1953. The matériel for *Austria* is sent to stockpile "A", the major portion of which is located in France and Germany under U.S. custody.

Capability to Absorb

Yugoslavia has been able to absorb efficiently all MDAP matériel programmed. No problems are foreseen for *Spain* or *Austria*, though in the case of Spain shipments have only just begun, and in the case of Austria shipments are to the previously mentioned stockpile.

Adequacy of Reserves

No war reserves of equipment have been programmed for *Yugoslavia*, though a 90-day war reserve of ammunition has been programmed for the Army, with other limited ammunition reserves for Navy and Air Force. *Spain's* reserves are limited to small amounts for the Navy and Air Force MDA programs. A 30-day ammunition reserve is provided in stockpile "A" for *Austria*.

Maintenance

Yugoslav maintenance of MDAP equipment supplied has been uneven in quality: good for the Navy, satisfactory for the Army, and poor for the Air Force. Problems have included lack of trained personnel and specialized maintenance equipment. In view of the newness of the *Spanish* program and the stockpile nature of the *Austrian* program, no maintenance problems are seen at this time.

Training

Originally problems with regard to training of *Yugoslavs* were experienced, due in part to suspicion of U.S. More recently, problems are being overcome by admission of mobile training teams. The *Spanish* training program will be small, consistent with the limited size of the matériel program. An *Austrian* military force of 8,500 men is being trained . . . .

B. PROGRESS TOWARD A STRONGER EUROPE*

Europe in 1953 had a good year economically.

(1) Agricultural production in 1953 was 11 percent higher than in 1949/50, and industrial production reached an all-time high—16% above 1950.

(2) Inflation has been contained and internal financial stability in generally improved.

(3) Western Europe's balance of payments has improved, both overall and with the dollar area. Gold and dollar reserves have increased to $11.3 billion, an improvement of $2.2 billion over December 1952.

(4) Intra-European trade has increased.

However, the following developments show major weaknesses and underline the fact that gains as measured by economic indices have not yet been firmly secured:

(1) Though European defense outlays have more than doubled since 1950, the rate of GNP increase, estimated at about 4% in 1953, is not sufficient to support any further marked expansion in the indigenous defense effort and at the same time provide a substantial improvement in standards of living. Further sizeable GNP increases seem dependent on shifts in political attitudes toward expansion; the easing of trade barriers and major institutional changes in laws, practices and structure of industry.

(2) Consumption and real wage levels have advanced only slightly as compared to the expansion called for by the exigencies of maintaining the NATO effort over the long haul.

[Here follow three charts inserted at this point in the source text. The first depicts graphically the progressive strengthening of Western European economies between 1948 and 1953. The second depicts graphically the growth of Gross National Products. The third depicts United States dollar inputs in Western Europe to make the point that "Increasing U.S. Military Expenditures in Western Europe Cushion the Impact of Decreasing U.S. Economic Aid."]

(3) A basic dollar imbalance remains, the improvement in the dollar position being due in large part to OSP and other extraordinary dollar receipts, as well as the maintenance of restrictions on dollar imports.

(4) The Intra-European trade-liberalization program (the removal of quantitative restrictions on imports) cannot go much further without major revisions in the EPU payments system to accommodate chronic debtor and creditor relationships; and without a con-

*Unless otherwise indicated, Western Europe in this Section refers to the OEEC countries with the exception of Greece and Turkey. Data on Spain and Yugoslavia are not included in the overall indices. [Footnote in the source text.]

certed attack on the more difficult barriers of tariffs, exchange rates and hard-currency restrictions.

1. Termination of Direct Economic Aid

The NSC 162/2* assumption that "it should be possible in the near future generally to eliminate most grant aid" is predicated on the condition "if coupled with appropriate U.S. economic and trade policies". These policies should include (among others) lower tariffs, incentives to increase the flow of private investment abroad, revision of U.S. merchant shipping policies, as well as leadership in encouraging coordinated moves toward convertibility.

Although legislation to implement such policies has not yet been enacted, new allotments of direct economic aid to Western Europe will be terminated (with the exception of Spain, Yugoslavia and Berlin) upon the completion of the FY 1954 program. The phasing out of direct economic aid marks the shifting of initiative and responsibility to the individual countries themselves for the further efforts toward increased production and productivity required if Western Europe is to achieve full economic and defensive strength.

The economic impact of this termination will probably not be felt until after FY 1955, primarily because U.S. military expenditures in Europe, including special defense financing to the U.K. and France, are scheduled to increase sharply as indicated in the following table:

U.S. Extraordinary Expenditures in Western Europe†

(billion dollars)

	Actuals		Estimates	
	FY 1952	FY 1953	FY 1954	FY 1955
Economic Aid and Defense Support (Paid Shipments)	1.604	1.273	.825	.380
Intermediate Type Budget Support (Special Defense Financing & Special Military Support)‡	0	.123	.512	1.005
OSP (Regular)	.003	.071	.317§	.789
Other Military Expenditures	.587	.871	1.029	1.032
Total Extraordinary Dollar Expenditures	2.194	2.338	2.683	3.206

†Excluding Greece and Turkey. [Footnote in the source text.]

‡ Includes aid to France for Indo-China. [Footnote in the source text.]

§ The FY 1954 expenditure total of $485 (Section A–paragraph d above) includes $162 in Lisbon-OSP for France and $7 million in regular OSP for Greece and Turkey. [Footnote in the source text.]

* For documentation on NSC 162/2, "Basic National Security Policy," Oct. 30, 1953, see volume II.

While military expenditures will probably decline after FY 1955, the magnitude of the decline cannot be estimated with any degree of accuracy until firm decisions are made on such issues as the number of U.S. troops that will remain in Europe and U.S. policy on the problem of annual recurring costs.

The continuing pipeline of extraordinary dollar expenditures provides a period of time in which European countries, individually and collectively, can undertake the domestic measures required for a more vigorous expansion of production and a wider European market, needed to put the NATO community on a firm economic foundation. However, the combined psychological impact of (a) the termination of direct economic aid, (b) uncertainty as to future U.S. trade policies, and (c) fears of a U.S. recession are already visible, and contribute to Europe's reluctance to undertake further expansionary measures. The continuing availability of extraordinary dollar receipts also provides a period of grace for the U.S. to adopt the "appropriate economic and trade policies" which can establish a strengthened NATO Community on a more enduring base, without continued extraordinary grant aid.

2. Production and the Use of Resources

In 1953, Western Europe's GNP apparently rose about 4%, a rate faster than the 2% increase of 1952, but under the average annual rate of over 6% from 1949 to 1951. Industrial production increased an estimated 5% and agricultural production an estimated 5%. The main rise in production occurred in the last three-quarters of 1953. The striking feature of the past six months was an accelerated rise in output by most of the Western European countries, in contrast to 1952, when Germany alone among the larger countries expanded substantially. Unemployment fell slightly in Western Europe as a whole during 1953, chiefly as the result of reductions in the United Kingdom, Germany and the Netherlands. However, unemployment increased in France, Italy (the particular countries which are specific sources of weakness in the coalition) and in some of the smaller countries.

The GNP increase is still below the OEEC August 1951 target to "increase overall production of Member Countries by 25 percent for the period 1952–56". The cumulative increase was only about 6% for the first two years combined.

3. Internal Financial Stability, Investment and Consumption

Inflationary pressures were in general contained during 1953 and prices stabilized; despite the fact that consumer demand expanded

appreciably, along with increased defense expenditures and higher investments. With the generally improved economic situation, some countries were able to take additional steps to encourage investments without creating new inflationary pressures.

[Here follows a chart depicting net cumulative positions of EPU member countries, December 31, 1951–December 31, 1953.]

4. Trade and Payments

Midway in 1953, OEEC member countries (excluding Turkey, Greece and Switzerland) reported that they expected a current account surplus with the rest of the world of almost $600 million for the year, compared with a surplus of $730 million in 1952 and a deficit of $1.2 billion in 1951. Western Europe as a whole (OEEC member countries, Spain, Yugoslavia and Finland) had a surplus with the United States in the first three-quarters of 1953 of $747 million, compared with a deficit of $418 million in the corresponding period of 1952.‖

The improvement in the external balance is attributable to several factors: U.S. military expenditures in Western Europe (including OSP and special defense financing to France for Indo-China) increased substantially during the year; the terms of trade continued to move in Europe's favor, although at a much slower rate in the second half of the year; Europe's imports of primary products—particularly from the U.S.—fell, while its exports to the U.S. increased, stimulated by high levels of U.S. activity; and the increase in agricultural output during 1952–53, especially a bumper grain crop, permitted some import saving, particularly dollar saving.

5. Intra-European Trade

Intra-European trade had by the second quarter of 1953 increased upwards of 25% by volume and 46% by value over the first half of 1950. In this, the trade-liberalization drive of the OEEC, and the payments facilities provided under the European Payments Union have played an important part. As of January 1, 1954, the OEEC Community as a whole had removed 75% of the quantitative quota restrictions on private trade (91% of all trade) among themselves, as contrasted with 65% last spring, although the percentages vary widely among the member countries.

This achievement is due in no small measure to persistent U.S. persuasion and encouragement, backed up by a net direct contribution of $272 million to the EPU in 1950. However, it must be noted (1) that the achievement of the 75% quota liberalization as of Janu-

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‖Both the data for OEEC countries vis-à-vis the rest of the world and Western Europe vis-à-vis the United States exclude U.S. unilateral transfers of military goods and services. Otherwise there are certain minor conceptual differences between the two series. [Footnote in the source text.]

ary 1, 1954, is virtually three years behind the initial target of February 1, 1951 set by the OEEC Council; and (2) progress cannot go much farther until there is found a more fundamental solution to the chronic debtor relationships which have developed in the EPU. At the October 1953 meeting, the OEEC Council of Ministers reaffirmed the objective of proceeding to complete abolition of quantitative import restrictions between members, but the 100% goal continues to be jeopardized by the French political and economic situation. [Omission in the source text.] Decisions which do involve the German potential are being reached in other intra-European economic institutions concurrently evolving.

[Here follows discussion of the OEEC and the European Coal and Steel Community, further documentation on which is in volume VI, and various measures and selected assistance to weaken Soviet power by such means as an East German Food Program, an escapee program, etc.]

Near East, Africa and South Asia

A. SUMMARY OF OBJECTIVES AND ACCOMPLISHMENTS

MSP objectives in the Near East, Africa and South Asia center on (1) strengthening military and internal security forces in certain countries to deter open aggression and violent revolution, and (2) accelerated improvements in living conditions through economic development. Accomplishments to December 31, 1953, include some dramatic successes, like the rescue of Iran from certain bankruptcy and probable revolution and averting widespread famine in Pakistan, and a number of minor successes which can be evaluated only in the perspective of the slowly-developing cumulative impact of economic development programs. In some areas—the Arab refugee problem, Israel economic difficulties—there is no real progress to report.

The military program includes continuing end-item aid and defense support to Greece and Turkey, but the demands of their economic development programs have threatened budget support for present forces, which have not yet reached NATO goals. Weakening of the Iranian army by the previous government has been reversed, but at present it can be expected to provide little more than the maintenance of internal security. Pakistan has requested military aid and indicated interest in a defense pact with Turkey. It appears probable that such a pact will be concluded. Iraq, also, has shown interest in United States military assistance.

B. MILITARY ASSISTANCE

1. Introduction

a. *Present Policy*

Since the formal recognition by Secretary Dulles last spring that the time and events were not propitious for the achievement of a Middle East Defense Organization, it has become United States policy to develop bilateral defense arrangements with selected countries of the area. The policy conclusions of NSC 162/2 are that, to assure access to oil and to strategic positions in the area, the U.S. should build on the military strength of Turkey, Pakistan, and—to the extent possible—of Iran and Iraq; at the same time assisting in achieving stability in the region by political actions and by limited military, economic, and technical assistance to other countries. The purpose of bilateral military assistance arrangements is, accordingly, to increase the military strength of the region and to provide a nucleus of military power which may be expanded later into a regional defense arrangement whose strongest members would be Turkey and Pakistan. This concept is the basis of the program which is just now being launched.

b. *Recent Developments*

A U.S. position on aid to Pakistan has been developed between State and Defense and discussions have been held with Turkey and with Pakistan concerning that country's request for military assistance. This has brightened the prospect of achieving a regional defense arrangement eventually to include Pakistan, Turkey, Iran and Iraq. MDAP funds are earmarked to permit initial military aid programs for Pakistan and Iraq in the general magnitude of $20 million and $10 million respectively, should the outcome of present negotiations so indicate. For Pakistan, FY 1955 program plans call for an additional $5 million in special economic aid to help counteract inflationary pressure from higher defense expenditures.

Programs already exist for Turkey and Iran as well as for Ethiopia and Saudi Arabia. In addition to the planned programs for Pakistan and Iraq, plans are in process of development for programs for Egypt ($25 million), and Lebanon.

Congress appropriated $30 million for use under the new section 202(b) of the Mutual Security Act of 1951, as amended.[9] To this amount has been added an additional $50 million by transfer from other military funds. Thus a total of $80 million is presently available from FY 1954 funds.

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[9] Section 202 (b) of the Mutual Security Act of 1951, as amended by the Mutual Security legislation of 1953, authorized appropriations not to exceed $50 million for fiscal year 1954 for use by the President to furnish additional defense assistance to any nation or regional defense organization in the Near East and African regions.

The above figures are, of course, tentative. Adjustments may be made within the total for small programs in Syria, Jordan and Israel.

c. *Policy Questions*

Certain major policy questions—together with their related military assistance and defense support implications—are in the process of being resolved:

1. Long-run U.S. objectives with respect to India's role in Middle East defense strategy.
2. Increases, if any, in Force levels which U.S. will support in Turkey to enable that country to carry out its role in Middle East defense.
3. Definition and implementation of the "Northern Tier" defense concept now being developed by JCS.

2. Iran

a. *Introduction*

The situation in the military field was altered by the change of Government on August 19, 1953.[10] Former Prime Minister Mossedagh had ordered a reduction in the enlisted strength of the Army, transferring a corresponding part of the Army budget to the Gendarmerie, and eliminating three battalions of 155 mm howitzers from the Army. This was reversed by the new Government. The authorized enlisted strength of Army was restored to 125,000.

b. *Objectives*

The U.S. military objective with regard to Iran is to develop military strength sufficient to (1) maintain internal security, (2) provide some resistance to external aggression, (3) enhance the prestige of the monarchy, and (4) raise the morale of the Iranian Government.

c. *Forces*

The forces supported by MDA Programs:

Army: 15 Brigades
Navy: 8 Combatant Vessels; 3 Maritime Aircraft
Air Force: 5 Squadrons

d. *Progress Summary*

Iran has limited ability to absorb military aid (NSC 5402).[11] Its forces have been able to absorb the MDAP matériel programmed to date only with great difficulty. Maintenance has been poor. Training has been greatly retarded as a result of the political situation in that country which resulted in Iranian trainees sent to the U.S. being selected for political rather than military qualifications.

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[10] For documentation on Iran, see volume x.

[11] For documentation on NSC 5402, "United States Policy Toward Iran," Jan. 2, 1954, see *ibid.*

e. *Effectiveness*

"At present Iranian armed forces are capable of maintaining security against any uprising short of a nation-wide tribal revolt" (NSC 5402). (Additional details to be supplied by DOD Annex on Effectiveness of Forces.)

3. Ethiopia

a. *Introduction*

The stimulus for an Ethiopian military assistance program arose from a U.S. desire to obtain a long term commitment for the use of Asmara airbase in Eritrea. In exchange for such a commitment the U.S. and Ethiopia signed agreements covering both a base program and a military assistance program in May of 1953.

b. *Objectives*

U.S. military objectives vis-à-vis Ethiopia are to strengthen the armed forces of that country in order to contribute to the (1) security of American military installations in that country and (2) ability of that country to defend itself.

c. *Forces*

The JCS by memorandum to the Secretary of Defense, dated April 21, 1953,[12] recommended that arms and equipment be furnished to the Ethiopian armed forces in an amount not to exceed $5 million. Since then, the following JSC force basis has been developed: 1 training center and 1 infantry division.

d. *MDA Program*

The program to date provides only army equipment in the categories of machine guns, small arms, artillery and ammunition.

4. Egypt

In view of Egypt's strategic location, the U.S. Government, contingent on settlement of the Suez impasse, decided to provide military assistance to Egypt. By letter of July 15, 1953, the President indicated to Prime Minister Naguib that the U.S. would provide military and economic assistance.[13]

No action has been taken to implement this program in light of the continuing controversy between Egypt and United Kingdom on Suez base rights. The program, when firmed up, should have as one of its major objectives the development of Egyptian capability to defend these bases after withdrawal of British forces.

5. Saudi Arabia

The present grant training program is supplementary to a program of providing military equipment on a reimbursable basis. While the difficulties encountered have been severe, given the illit-

[12] Not found.

[13] For text, see volume IX.

eracy of the trainees, the program has been adhered to, primarily to assure continued Saudi Arabian agreement to use by U.S. forces of the Dharan Air field. The U.S.-proposed agreement to cover a grant end-item program of $5 million was unacceptable to the Saudi Government and the matter is currently at a standstill.

6. Iraq

In January 1954, Iraq was declared eligible to receive grant aid and negotiations for a military assistance program will be initiated shortly.

C. RECENT ECONOMIC DEVELOPMENTS

The most striking features of the diverse economies of the NEA area are (1) the abject poverty of the great mass of the population, and (2) the dangerously slow rate of improvement. The average per capita income in the area is well below $100 annually.

Best estimates show a rise of only 1.6% in aggregate GNP of the NEA area during 1953. Movements in individual countries generally ranged from fair improvement in petroleum-producing areas to stagnation or actual losses in countries dependent on exports of agricultural or mineral products.

The food situation is generally better than it was a year ago, although chronic population pressure persists in several areas, e.g. India-Pakistan, Egypt. A relatively good crop in India permitted a reduction of foodgrain imports from 3.9 million tons in 1952 to less than 2.0 million tons in 1953. In Pakistan a critical food shortage was relieved by the special U.S. wheat program. Prices have declined and hoarded grain has come out of storage. The outlook for the coming harvest is favorable in both India and Pakistan. During 1953 U.S. wheat aid also helped to relieve shortages in Jordan and Libya. A request by Afghanistan for wheat aid is under review.

The void created by Iran's petroleum shutdown was more than filled by other countries in the area during 1952 and further substantial expansion was achieved in 1953, especially by Iraq, Saudi Arabia and Kuwait. Total crude oil production in the NEA area rose 4% in 1952 and 19% during 1953.

Development of strategic materials and other primary products in Africa is proceeding at a moderate pace. The present stage is one of consolidation following a postwar period of fairly rapid increases in production. The major bottlenecks at present are shortages of skilled workers and transport facilities. Political problems are also impeding development progress in some areas, e.g. French North Africa, Kenya. Post-Korean declines in metal prices have not been a serious factor, because African output is relatively low-cost.

Depressed world market prices in cotton and jute continue to have an adverse effect upon the foreign exchange position of exporting countries—Egypt, Turkey and Pakistan. In Pakistan the loss of foreign exchange reserves was temporarily halted by the U.S. wheat program and by drastic controls which the Pakistan government imposed to cut the value of imports by one-half during 1953.

D. MAIN PROGRAM AREAS

1. Greece and Turkey

Impressive economic progress in both Greece and Turkey has continued to strengthen these two NATO countries. Six years of U.S. assistance have dramatically increased production and enabled Greece and Turkey concurrently to maintain their military establishments, to achieve a substantial degree of political and economic stability, and to continue comprehensive development programs. Neither country, however, has yet reached the point in development which will permit a cessation of U.S. economic aid. Both countries are so determined to continue their development programs that when inflationary pressures recently began to build up, they warned that military expenditures would probably have to be reduced. U.S. country teams have recommended continuation of aid thru FY 1957, at a level rate in Turkey and a descending rate in Greece.

2. Arab States and Israel

Continuing border clashes, climaxing in the Qibya raid in October,[14] emphasized the unabated Arab-Israel hostility as the dominant factor contributing to unrest and retarding progress in the Near East. With no prospect for peaceful cooperation, greater emphasis is being placed upon strengthening the economies of all the nations concerned, improving standards of living, and using peaceful, constructive means to forestall international friction in areas of potential conflict. Since water resources are of paramount importance to livelihood in this arid and semi-arid region, settlement of competing claims on the waters of the Jordan River is being given priority treatment.

a. *Jordan River Valley Development*

A United Nations report for the UNRWA was submitted last fall to the countries concerned, recommending the comprehensive and unified development of the Jordan River valley to irrigate 232 thousand acres of land in Israel, Jordan and Syria and to develop power in 5 hydroelectric plants.

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[14] For documentation on Arab-Israeli border clashes, see volume IX.

Ambassador Johnston did not succeed in obtaining acceptance of the plan, but did obtain consideration of it. He will return in March to continue negotiations.

b. *Palestine Refugees*

Though the Jordan and other development plans hold some promise for the future, no actual progress was made during the last half of 1953 in resettling the Arab refugees. UNRWA relief operations continued. The Special Near East Refugee Survey Commission was unable to visit the site of the refugee camps but submitted an interim report in December suggesting that the U.S. continue to support necessary relief measures and fully cooperate in development and execution of a "permanent and practical plan of development."

c. *Technical Cooperation Programs*

FOA missions in Israel and the Arab states are proceeding with technical cooperation programs which vary in emphasis and composition depending upon urgency of requirement, degree of receptivity and resources available. In general, special emphasis is placed upon development of water resources and introduction of effective agricultural techniques. The widespread incidence of disease and high rate of illiteracy require programs to provide elementary public health services and practical education facilities. The low level of competence in managing public affairs has made it necessary to introduce technical assistance in public administration.

Noteworthy successes, as well as some failures, have been experienced, but in the larger perspective of U.S. objectives real progress is not yet measurable. In the underdeveloped Near East it has become apparent that strength and stability require development on a broad base, and that it will require several years of cooperative work to create the conditions which will permit solutions to the area's basic problems.

d. *Special Economic Aid*

In addition to the technical cooperation programs, FOA assists some countries substantially with special economic grants. Israel's foreign exchange expenditures continue to be 5 times as great as her earnings; a debt of $400 million, including a short term debt of $73 million, also has to be serviced. External sources such as World Jewry contributions, bond issues, German reparations, and U.S. aid cover the deficit of approximately $220 million per year. During the first half of fiscal 1953, the U.S. contribution was $26.25 million, with a similar amount earmarked for the second half.

In the Arab States, development programs involving aid grants are under consideration. These may reach $25 million for Egypt, $18 million for Syria, Lebanon and Jordan. $3.35 million has been approved for Saudi Arabia. The final decisions will depend in part

upon submission of firm programs, and may be influenced by the outcome of the Jordan River development plan, and by resolution of the Suez controversy.

3. Iran

Speedy provision by the United States of $45 million special economic assistance enabled the new Zahedi regime to stabilize and to initiate its programs of reform and development. These funds will provide emergency help thru March 1954. Until the oil dispute is settled and oil production begins to yield income, Iran will require outside assistance. Once a settlement of the oil dispute is reached, rehabilitation of the refinery establishment will take about six months. Capital requirements are expected to be met from private resources.

Underlying the immediate and urgent fiscal problems are the age-old social and economic conditions: hunger, disease, illiteracy, insecurity. The new regime recognizes the need for development and reform and has given enthusiastic support to the broad technical cooperation program to which U.S. is contributing $23.4 million in the 1954 program.

4. South Asia (India, Pakistan, Afghanistan, Nepal)

a. *Summary*

[Here follows a chart depicting India's food situation between 1946 and 1953.]

The MSP continued to be a major instrument of U.S. foreign policy in this crucial sector of the "uncommitted world". These programs operated in an atmosphere of difficulties arising from a stalemate in the India-Pakistan dispute over Jammu and Kashmir, adverse reactions in India and Afghanistan to Pakistan's request for U.S. military aid, and failure of the wheat crop in Pakistan. Offsetting these were encouraging evidences of official and popular enthusiasm for U.S. economic aid and technical cooperation in the four countries, testifying to the real though moderate progress being made toward development objectives.

b. *India*

India, one of the largest, potentially most powerful nations of the world, has a broad development program in which U.S. aid plays a vital though financially minor role. Despite sporadic indications of official coolness on the international front, the Indian attitude toward the FOA program has changed, to a significant degree, from initial suspicion to genuine cooperation and appreciation.

Food has been and will continue to be the most serious problem. Even with a good crop year, it was necessary to import almost 2 million tons of food grains in 1953. Recognizing that the primary element in the increase in food production was favorable weather,

some credit is nevertheless attributed to increased use of fertilizers, new methods of cultivation, better seeds, and more and better tools. Continuation and expansion of these influences, plus completion of irrigation works which will bring millions of additional acres under irrigation, are expected to show results of major significance beginning with the 1954 crop year.

Most agricultural extension work, as well as projects in education, health, rural transportation, and so on, is brought to the rural people through the Community Development program. Nearly half the value of total improvements has been from locally contributed labor. The program has met with such success the Indian government is making it a major part of the Five Year Plan.

Unemployment and underemployment in India are chronic, partly due to the high rate of population increase—about 5 million per year. Recent increases in unemployment have led to a new emphasis upon industrialization, and the U.S. has contributed to Indian acceptance of the idea of an Industrial Development Corporation to stimulate private enterprise.

c. *Pakistan*

[Here follows a chart portraying the levels of United States wheat shipments to Pakistan in 1953.]

When the present government in Pakistan came into power last April, it was already faced with a serious foreign exchange shortage because export earnings from jute and cotton had dropped nearly half. The failure of the wheat crop had brought the country to the verge of famine and political crisis. A large part of the country's limited foreign exchange resources went for food, with the result that imports had to be cut drastically and, because of loss of customs revenues, the internal expenditure budget had to be reduced. The Six Year Plan of development was discarded and a National Planning Board was set up to formulate a new program.

The U.S. met the wheat crisis by donating up to 1 million tons of wheat, part of which is being sold and the proceeds used for development projects. The first phase of the wheat shipment, 700,000 tons, was 85% complete by 31 December. In addition to local currency generated by wheat sales, and funds for the technical cooperation program, the U.S. is providing a grant of $14.5 million to step up the pace of Pakistan's economic development. Much progress has been made in gaining the confidence and respect of the officials and the people, and many technical cooperation projects, primarily in agriculture and natural resources, are finally underway or about to start.

d. *Afghanistan and Nepal*

Afghanistan and Nepal are primitive agricultural economies with very low standards of living. FOA programs are directed

toward increasing the food supply, raising living standards, increasing exports, improving communications, health and education.

Without foreign grants or loans, Afghanistan for the past 8 years has invested about $8 million per year in industrial development, chiefly textiles, power and cement. The other major development in the country is the Helmand River Project, financed by Afghanistan plus a $21 million loan from the Export-Import Bank. FOA is assisting with the Helmand River Project by providing assistance in administration, engineering, agriculture, and community development.

5. Africa

The African area of FOA operations embraces the 3 independent countries of Libya, Ethiopia, and Liberia, and dependent territories of the United Kingdom, France, Belgium, Italy and Portugal.

The program objectives in the territories and in the independent countries are essentially the same. In Libya, Ethiopia and Liberia the programs are continuations of those developed in the past years, emphasizing agricultural extension services in Libya; the agricultural program of the Oklahoma A & M College, and the establishment of agricultural schools, an agricultural experiment station in Ethiopia; and public health, agriculture, elementary education and teacher training in Liberia.

The Metropolitan countries, responsible for the development of their territories, have prepared plans within which the FOA technical cooperation programs operate. In the current program, increased attention is being given to improving the health and the welfare of the people of the territories.

[Here follows a map indicating those Middle East international river development programs receiving FOA assistance.]

E. CURRENT PROGRAM EMPHASIS

1. Programs to Fit the Need

Each country in which FOA operates a program is a separate and distinct program problem. Notwithstanding variations among them, almost all countries need assistance to achieve minimum standards of practical education and health and sanitation, all need more food, most need water, all need improvements in public administration. To put some of these programs in a regional perspective, there follow brief discussions of food production, water development, community development, and public administration.

2. Food Production

A priority program objective in the NEA Region is the production of more food. Agriculture programs in each of the countries

consist of numerous specific projects to bring more land into cultivation, increase the per capita acre yield, improve quality of production, and improve range lands for animals.

3. Water Resources

a. *The Problem*

In the current efforts to improve the living standards of the peoples in the NEA Region, the development of water resources is of paramount importance. Since much of the area is arid or semi-arid, agriculture must be based on irrigation; surface water resources must be controlled and ground water resources developed. Plans are already underway for river valley development programs which will cost hundreds of millions of dollars to complete. Some of them are of major political significance because the rivers involved are subjects of international controversies.

b. *International Rivers*

The following important rivers are the subjects of planning studies and international negotiations, and around the development of them millions of people are building their hopes for the future.

(1) *The Indus Basin:* A unified plan is now being developed under leadership of the IBRD.

(2) *The Helmand River:* Development has been underway since 1946, financed by Afghanistan, partly by an EXIM bank loan of $21 million. FOA is assisting with valley development, settlement of peoples, and irrigation structures.

(3) *The Jordan River:* See page 24.[15]

(4) *The Nile River:* Years of engineering study would be necessary to develop a unified development plan of the Nile. Egypt's proposal for a high dam at Aswan is estimated to cost some $500 million.

(5) *The Tigris-Euphrates Rivers:* Iraq is already irrigating some 6 million acres with these waters. The river has not been developed in Syria and Turkey, where the headwaters rise. A unified plan of development would eliminate the source of potential controversy.

c. *National Rivers*

Plans are underway for development of the Litani River in Lebanon calling for basic structures which will probably cost more than $100 million. . . . FOA has programmed $1.8 million for the Keradj River project in Iran, which is estimated to cost a total of $30 million from all sources. . . .[16] India has underway a river basin development program far exceeding the Federal reclamation programs in the United States.

d. *Ground Water*

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[15] Reference is to section D–2–a above.

[16] Ellipses in the source text.

In many areas of the Near East, Africa and South Asia, the demands for quick agricultural expansion are resulting in major efforts to locate and exploit underground water resources. Programs are well advanced in Greece and India and are contemplated in Pakistan, Saudi Arabia, and Egypt.

[Here follows brief discussion of community development and public administration programs in the Near East region.]

FAR EAST

A. OBJECTIVES AND SETTING OF MSP IN THE FAR EAST

1. General

From its inception, the Mutual Security Program in the Far East (Burma, Formosa, Indochina, Indonesia, Japan, Korea, the Philippines, and Thailand) has faced two major difficulties: (1) the diversity of problems, involving both the countries themselves and the security interests of the US, and (2) lack of regional defense and economic organizations capable of collective action on area problems. The countries have certain common characteristics: threatened or overt communist aggression or subversion; inability to resist communist invasion (or communist supported subversion) without outside assistance; and importance to US security interests.

In the absence of regional organizations, the most important unifying element in facing up to problems of building military defense, furthering economic development, and arresting economic deterioration, is the device of US bilateral assistance arrangements with individual countries. MSP efforts have necessarily concentrated on key countries, although regional considerations have exercised an increasing influence on country programs.

Major US objectives with respect to the Far East are: (a) to prevent any country in the region from passing into the communist orbit; (b) to assist the free countries to develop the will and ability to resist communism from within and without; (c) to assist the governments in their efforts to achieve political and economic stability designed to enlist the support of their own people; (d) to assist in the development of self-supporting economies under independent, representative governments with pro-Western orientation. These guidelines determine the nature and scope of MSP activities in the area.

It must be recognized, however, that US objectives are not fully coincident with the aspirations of the leaders of several countries in the area, notably in Formosa and Korea. The NGRC's principal objective is to find the necessary strength to return to the mainland, whereas present US policy is based on the concept of a strate-

gic reserve with more limited offensive capabilities. The Republic of Korea considers the unification of Korea its overriding objective, and has called for fulfillment of this objective through military means; US policy is to work through peaceful means toward eventual unification under an independent democratic government.

2. Regional Integration

In late November, Rhee and Chiang Kai-shek jointly proposed a NATO-type regional defense organization encompassing all anti-communist governments in the Far East. The proposal has not resulted in any military pact, nor does it have US sponsorship at this time. The US would probably be expected to provide funds.

The closest approach to a regional economic organization—the UN Economic Commission for Asia and the Far East—provides a forum for discussion of production and marketing problems, development programs, trade relationships, monetary arrangements, and regional integration. No progress has been made in developing an organization comparable to OEEC. Economic unification of the area depends substantially on Japan's assuming to an increasing degree the role of principal supplier of consumer goods and principal consumer of raw materials. In 1953, high Japanese prices and increased competition from Western sources retarded Japan's exports to the area. The total volume of intra-regional trade is declining rather than increasing, the rise in Japan-Formosa trade being the major exception.

3. MSP Setting

In the absence of regional organizations capable of attacking the pressing economic and military problems, MSP efforts have necessarily concentrated on key problems in individual countries. The MSP ranges from technical cooperation with modest provision of equipment (Indonesia) to major military assistance and defense support (e.g. Formosa, where US aid is supporting the continued existence of the NGRC). Major emphasis has centered on military assistance to the French and Associated States forces in Indochina—the key to the security of Southeast and South Asia; and developing and maintaining NGRC forces on Formosa. Of real but restricted value in Indochina, economic support of the military effort has been of crucial importance in Formosa.

Thailand and the Philippines are also receiving both military assistance and economic and technical assistance. Indonesia receives aid under the technical assistance program. The Burma program has been discontinued (at Burma's request) and is being phased out.

Key programs in Korea and Japan will assume their true stature in the months ahead. The Korean program, to date a reasonably

effective relief operation under the "disease and unrest" formula, must now be tailored to meet the need for gradual industrial rehabilitation while providing the consumer goods necessary to combat mounting inflationary pressures. The US-Japanese military assistance agreement will ultimately lead to an increased Japanese defense force and defense production. Concurrently, the US interest demands that all possible steps be taken to further the integration of the Japanese economy with the rest of free Asia.

[Here follows a country-by-country discussion of the military situation in the Far East. For documentation on this topic, see volumes XII–XV.]

C. ECONOMIC PROGRAMS AND PROBLEMS

1. Objectives and Highlights

FOA assistance is keyed to specific objectives in each country receiving aid. The broad objectives of US aid programs are: (a) to increase political and economic stability; (b) to make full and efficient use of available resources; (c) to help increase the effectiveness of local governments and thereby broaden their popular support; (d) to stimulate increased agricultural and industrial production; and (e) in countries receiving military aid, to facilitate assumption by them of an increased share of responsibility for their own defense and for defense of the area. Several divergent trends are evident.

(a) A number of Far Eastern countries face balance of payments difficulties which, in the absence of extraordinary dollar expenditures (or, in the case of Indochina, franc expenditures) would have grave consequences.

(b) Continuing declines in world prices of raw materials threaten development plans of countries in Southeast Asia; failure of these countries to find outlets for their products could imperil economic and political stability.

(c) With few exceptions, agricultural production has been restored to or has surpassed prewar levels. Progress in development of marketing, distribution, and credit facilities is notably absent, with the exception of limited beginnings in the Philippines.

(d) Moderate but spotty progress has been achieved in the vital field of public administration, particularly in the fiscal field.

(e) Levels of foreign private investment remain low, in consequence of physical insecurity and unfavorable investment climate.

2. Payments Imbalance

The most disturbing feature of the Far Eastern economic situation in 1953 was the sharply increasing payments deficit—an increase which encompassed rising imports, declining exports, and a drop in net invisibles (apart from US Government expenditures other than grants and loans). The following summary table indi-

cates the magnitude and composition of the imbalance (figures in millions of dollars):

	CY 1952	CY 1953
1. Area exports	3461	3328
2. Area imports	−4837	−5072
3. Area trade balance (1–2)	−1376	−1744
4. Area net invisibles (excluding US Government expenditures other than grants and loans)	−406	−438
5. "Normal" current accounts balance (3+4)	−1782	−2182
6. US Government expenditures (other than grants and loans)	991	1045
7. Area net invisibles (4+6)	585	607
8. Current accounts balance *including* US Government expenditures other than grants and loans (3+7)	−791	−1137
9. French Government expenditures in Indochina (made possible by US aid to France in support of Indochina war effort)	663	457
10. Covered from all other sources (including capital transactions and US economic and technical assistance)	−128	−680

[Here follows a chart indicating that insofar as the Far East was concerned, "U.S. Dollar Input in FY 1954 . . . Will Directly or Indirectly Cover Over Four-Fifths of Area Payments Deficit".]

The area trade gap in 1953 approximated $1.74 billion—27% larger than in 1952. Japan's heavy import surplus accounted for 65% of the area's total trade imbalance; Indochina and Korea (with a combined import surplus of nearly $650 million) showed imports which were respectively 5 and 8 times as large as exports. Only Burma and Indonesia showed slight export surpluses.

The 1953 payments gap was narrowed by net invisibles receipts of about $600 million, leaving a net payments deficit—excluding US aid programs—of over $1.1 billion. Present indications are that the gap in *fiscal* 1954 will be somewhat larger than that in *calendar* 1953, with trade and normal invisibles continuing at the 1953 rate, and a slight decline in US Government expenditures other than grants and loans.

Excluding military end-items, FY 1954 US aid programs for the Far East provide about $836 million in new funds and unexpended obligations from previous years. Actual expenditures for supplies and equipment in FY 1954 are expected to amount to about $337 million. To this should be added $450 million in French franc payments in Indochina, made possible by US budgetary assistance to

France in support of the Indochina war. Thus, US assistance programs will directly or indirectly provide a total of about $787 million to meet the Far East trade and payments gap in FY 1954.

	FY 1954
1. "Normal" current accounts balance (line 5 in preceding table)	−2182
2. US Government expenditures other than grants and loans	969
3. Current accounts balance *including* such expenditures	−1213
4. Direct US support: Expenditures for supplies and equipment under US assistance programs	337
5. Indirect US support: French Government expenditures in Indochina	450
6. Total US dollar input	1756
7. Covered from all other sources	426

Two facts stand out sharply: (1) US economic and technical assistance programs in FY 1954 will cover almost two-thirds of the $1213 million current accounts imbalance in the Far East as a whole; (2) even more significant, the apparently favorable invisibles balance is made possible solely by virtue of massive extraordinary US dollar expenditures above and beyond US assistance programs. These expenditures flow from Allied Force personnel expenditures, maintenance costs for US forces, UN procurement, and military construction activities in Japan; US Army hwan purchases in Korea; veterans, US War Claims Commission, and military payments in the Philippines; and modest but growing MDAP offshore procurement in Japan and Formosa. Totaling $1045 million in 1953 and about $970 million in 1954, these expenditures outweigh the economic aid program in meeting the area payments problem. Continuation of these expenditures is largely dependent upon strategic military decisions—locus of military production, deployment of US forces, etc. Nevertheless, future plans for economic development in the Far East must to a considerable degree take account of these decisions—with their inevitable economic impact. Both present and projected levels of US military, economic, and technical assistance grant aid, taken by themselves, represent a gross understatement of the actual US dollar input toward the stability of the Far East.

[Here follows a chart depicting the Far East trade gap between 1950 and 1953.]

The US plans to remove two army divisions from Korea in 1954, resulting in an estimated decline in special dollar payments from $120 million in 1953 to $30 million per year in the future. Extraordinary US dollar expenditures in Japan are also expected to de-

cline after 1954, as a result of the termination of hostilities in Korea. Special expenditures in the Philippines will taper off gradually after 1955; veterans' payments, now about $100 million annually, are expected to drop. Area-wise, it appears that unless radical improvement is made in trade and payments balances in the next 12–18 months, the economic impact of declining US dollar expenditures may prove to be serious.

3. Marketing Problems

(a) *Raw Materials*

Falling sales and declining world prices of raw materials during 1953 have seriously reduced foreign exchange earnings of countries of Southeast Asia. Tin and rubber prices fell by a third in 1953; rice has fallen by 15%, and is expected to drop 20% from the present figure. Burma (rice), Thailand (tin, rubber, rice), and Indonesia (tin, rubber) were particularly hard hit; Indonesia, with exchange reserves already dangerously low, is in serious difficulty. In addition, the expected US decision to discontinue purchase of tungsten under GSA contract poses problems for Korea and, to a lesser extent, Thailand.

Marketing failures are in some cases attributable to factors beyond the control of the exporting nations. Termination of tin purchases for the US stockpile left world tin production a full 25% above present or prospective demand. Rubber, too, is seriously affected by virtual cessation of US stockpile purchases, although in this case the long range demand outlook is more favorable.

Rice is faced with increasing competition from North American grain surpluses and unwillingness of Japan and India—normal importing nations—to pay the still inflated prices. In addition, virtual self-sufficiency in rice in the Philippines and Korea, and increased rice production in Indonesia has further reduced the potential export market. Large carryover stocks and declining salability abroad have depressed domestic prices in Burma and Thailand, interfered with normal movements from farmer to market, and strained storage capacity. The poor crop in Japan may offer a partial and temporary solution to the problem of surplus rice in Thailand, and particularly in Burma. Burmese rice is acceptable to the Japanese—at a price. One result of substantially increased purchases from Burma would be a decline in sales to Japan of US rice. If a distressed US rice market were to result in anything appearing to be a US rice-disposal program, the political and psychological impact in Southeast Asia would be serious. Indeed, US loans and grants of wheat are already having an adverse effect in the rice-exporting countries with which, in a sense, the US is competitive.

Significantly, many of the countries affected by marketing failures have received trade offers from communist China. Indonesia has even concluded a trade agreement with China, calling for shipment of tin and rubber, among other items, although to date no shipments have been made. Continuation of the marketing impasse might result in acceptance of communist trade offers, with concomitantly increased dependence on the Soviet Bloc.

(b) *Manufactured Goods*

The overwhelming bulk of Far Eastern industrial capacity is concentrated in Japan, which formerly supplied much of the area's needs for manufactured goods. While Japanese industrial production in 1953 was 15% higher than in 1952, and 48% higher than prewar, high domestic prices made export markets less attractive, and Japanese products became less competitive. Western Europe and North America supplied an increasing proportion of Japan's "normal" export market; further, the underdeveloped countries of the area are with few exceptions attempting economic diversification and reduction in imports of consumer goods.

(c) *Impact*

Area marketing problems have not yet been resolved. It is clear, however, that low quality and/or high cost are rendering exports of Far Eastern countries uncompetitive vis-à-vis cheaper or more readily available substitutes. Increased production has not been achieved; shortage of capital, high interest rates, and internal inflationary pressures have kept production and marketing cost high. Further, excessive reliance on one or two commodities has rendered the raw materials producers excessively vulnerable to fluctuating demand and shifts in terms of trade.

[Here follows a chart indicating various aspects of rice production in "Free Asia" with 1938 and 1953 used as contrasting base years.]

In recognition of the marketing problem, the US is assisting in stabilizing markets for tin and rubber. While a recent NSC decision precludes US participation in the International Tin Agreement favored by the producing nations, some 40,000 tons of non-stockpile tin now held by RFC will be insulated from the market, together with 20,000 tons to be purchased from Indonesia—withdrawals to be made only at the direction of the President. The rubber market has been bolstered by revisions in stockpile rotation practices, reductions in mandatory use of synthetic rubber, and shutdown of US-owned alcohol rubber plants.

Resolution of the long-range problems facing the underdeveloped countries of Southeast Asia lies, in large measure, in coordinated economic diversification and solution of the marketing impasse. Funds for such diversification will flow only in part from external

grants and loans and from private foreign capital investment. More importantly, they must flow from public and private local capital. Failure to solve the problem of marketing the raw materials produced by these countries would seriously imperil the US objective of increasing economic, political, and social stability. Since declining export sales are directly reflected in national income and government revenues, these countries would be unwilling or unable to devote needed resources to the implementation of development plans. In short, continuation of the 1953 marketing failures could result in retrogression of the Far East toward economic and political crisis in place of the planned advance to more solid ground via development programs.

4. Agricultural Production

Area-wise, the most favorable development during 1953 was the general rise in agricultural production. While Japan suffered a 20% failure in the rice crop (a loss of $300 million) and a $50 million decline in other grains, every other country in the area held even with or showed a marked rise over general agricultural production in the previous year, with food production improvement even more pronounced. Thailand showed a total agricultural production index of 181 (1935-39=100); the Philippines (125) and Indonesia (114) were also well above prewar; Korea, with an index of 95, showed a 14% improvement over 1952—percentagewise the largest improvement in the area.

This favorable picture results from exceptionally good conditions this year, and should not be regarded as a trend. Furthermore, population increases have more than wiped out these production gains on a per capita basis. Only Thailand, with an index of 138, showed per capita production above prewar levels. Indonesia's per capita general index of 97 appeared relatively close to prewar, although the figure was inflated by heavy production of industrial agricultural commodities, and per capita food production was only about 88% of prewar.

5. Public Administration

In the final analysis, the struggle between the Free World and the Soviet Bloc for the allegiance of the Far East depends on the effectiveness of the local governments and the extent of their popular support. The technical assistance program to assist in increasing government effectiveness may have a greater ultimate impact than physical shipments of supplies and equipment.

Japan excepted, the Far East faces a serious lack of trained technical personnel at nearly all levels. This lack underlies the serious internal weaknesses in the organizational structure and administrative procedures of both central and provincial governments

throughout the area. While recognizing these deficiencies, the governments of several of these nations have been reluctant to request extensive US technical guidance in a field which appears to impinge on national sovereignty. Hopefully, this reluctance appears to be breaking down, as (1) the need for better use of all available resources has become more clearly evident, (2) host governments have begun to assume more responsibility for mutually sponsored economic and social development programs in public health, agricultural extension, and similar areas, and (3) the impediments to progress posed by inequities and inadequacies of existing statistical practices, budget techniques, tax collection methods and tax laws have become more glaringly apparent.

Progress in Formosa in 1953 was impressive in contrast with the area average. Military budgets and expenditures were brought more under civilian control and total budget estimates are the most carefully calculated and justified in Chinese history. The reorganized Economic Stabilization Board provides a more effective central source for economic planning. The US concept of a joint import program was adopted to enable more efficient use of foreign exchange for development purposes. The land reform program reached the stage of actual transfer of farm land to over 200,000 new owners. US recommendations to increase revenues were put into practice to meet the current budget deficit, and the government moved toward adoption of a more realistic exchange rate. The FOA program is thus approaching the stage where development of capacity for self-support can take equal priority with maintenance of economic stability as a focus of US attention.

In the Philippines, progress in public administration projects was accelerated. The Government was more receptive to technical assistance in labor, fiscal, and trade policy; and progress was made in the development of facilities for rural credit, implementation of tax measures, improvement in import control administration, and implementation of the Industrial Peace Act. With the advent of the Magsaysay Administration, US technicians were requested to assist in government streamlining. Revitalization of the National Economic Council, with extended authority over the country's economic development program, is expected to be the first product of this technical collaboration.

On the other hand, progress in improving public administration in Indochina, Thailand, and Indonesia has been slight or non-existent. In Indochina, the Pau accords [17] continue to hamper the Asso-

[17] At the Pau Conference, which concluded on Nov. 27, 1950, France and the Associated States sought to achieve the transfer of substantial economic sovereignty to the latter. For documentation on U.S. attempts to give direct aid to the Associated States, see volume XIII.

ciated States from requesting US technical guidance at the policy level in public administration, fiscal, and related fields, although FOA programs have contributed to strengthening the services of individual ministries. War conditions have forced concentration of the aid program into areas of direct need—transportation, refugee care, health, sanitation, agriculture, etc.—with little progress toward resource development, fiscal, or financial reform.

Thailand has been slow in seeking US guidance in public administration, with the minor exception of advice in tax collection methods. Indonesia may request aid in the broad public administration field under the FY 1954 program.

Developments in the Philippines and Formosa constitute the end-product of three years of US technical assistance. Lasting improvement in the fields of public administration, fiscal and budget measures, taxation administration, etc., is not a short run matter. While it is unwise to generalize from specific instances, the possibility should not be overlooked that, in matters appearing to touch national sovereignty, more rapid progress might be achieved by UN than by US technicians.

6. Private Investment

Generation of internal capital is difficult in all of the underdeveloped nations of the Far East by reason of low average income and almost total lack of mechanisms for accumulating private savings. As such mechanisms develop, the rate of domestic private investment may be expected slowly to increase; in the interim, economic development will depend largely upon local and foreign public capital, and eventually, private foreign investment.

The general insecurity of much of the Far East continues to preclude extensive private foreign investment. Unfavorable investment climate is a major barrier in several countries. On the material side, the inadequacy of road, rail, power, and port facilities must be overcome through public capital investment before extensive external or internal private capital can be employed. Equally important is the need to remedy the institutional barriers to investment arising from the shortage of managerial and technical skills, inadequate public services, disease incidence, and low productivity.

Most countries in the area continue to pay at least lip service to the concept of private foreign investment as a major tool in their economic—and particularly industrial—development programs. Indonesia, for example, is reportedly on the point of revising the investment laws to attract outside capital; the Chinese Government on Formosa has acknowledged the inadequacy of its foreign invest-

ment legislation, and is actively considering a new US-sponsored law.

On balance, however, recent progress has not been encouraging. On the plus side, some US private capital has finally moved into Formosa, although the volume is still small; US petroleum companies have increased their prior investments in Indonesia; US investors are displaying more active interest in Japan, although Japanese authorities are reluctant to accept foreign control of enterprise. The volume of foreign investment in the area has not been large, however; the total value of US direct private investment (including reinvested earnings of earlier investments) has in no year since the war exceeded $75 million. Incomplete figures for 1953 indicate a considerable shortfall from that amount, with Japan and Indonesia as major recipients. Nor does the immediate future appear brighter: neither Burma nor Thailand possesses the necessary facilities to attract outside capital in substantial volume; both Korea and Indochina appear to be too risky from a security standpoint. Japan, Formosa, and the Philippines appear in position to receive favorable consideration by foreign investors. Indonesia's development potential may in time attract large-scale private investment; at present, with the possible exception of further petroleum development, most investment possibilities appear to lie in areas where foreign capital would not find it prudent to invest.

LATIN AMERICA

A. U.S. OBJECTIVES AND COURSES OF ACTION

The Milton Eisenhower visit [18] was a major political and economic event of the year in Latin America. It has contributed to a new spirit of optimism and franker understanding of mutual problems.

U.S. economic objectives and courses of action with respect to Latin America as stated in NSC 144/1,[19] have been confirmed and further articulated in Dr. Eisenhower's recommendations.

In several areas the Eisenhower recommendations go beyond previously documented policy. The principal recommendations involving either change in policy or substantial shift in emphasis are the following:

1. A long-range basic materials policy permitting purchases for enlarged stockpiles when prices are declining. (Present stockpiling policy does not envisage stockpiling procurement beyond the calculated goals for the subsidiary purpose of international commodity market stabilization.)

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[18] Regarding the visit of Milton Eisenhower to the countries of South America in 1953, see the editorial note in vol. IV, p. 196.

[19] For text of NSC 144/1, Mar. 18, 1953, see *ibid.*, p. 6.

2. Maintenance of a national lending institution to make sound development loans which are in our national interest, but which might not be made by an international agency. (This would require changing the present policy under which the Export-Import Bank operates or establishment of a new U.S. lending agency.)

3. Expansion of the technical cooperation problem in Latin America. (Present NSC policy calls for "Continuing the program of technical assistance to the area, but designing individual projects within the capability of the particular country concerned".)

4. Assigning the consultative part of the technical cooperation task, whenever possible to American universities. (Now done in only a few cases.)

5. Withdrawal of U.S. personnel when a particular project is well established. Dr. Eisenhower states that this is the present policy but that it is not always followed.

The President has expressed his general approval of the Milton Eisenhower report and has asked FOA to implement those recommendations which are within present policy and to give thorough consideration to those recommendations which would require new policy decisions. Development of specific steps to implement the Milton Eisenhower recommendations was the main work of the Lima Conference of USOM Directors of January 13–19.

B. ECONOMIC TRENDS

Latin America's remarkable postwar economic growth is evident in the average annual increase of 5.6% in the area's gross national product at constant prices from 1946 through 1951. The period of rapid progress ended abruptly, however, with overall GNP actually declining in real terms during 1952 and barely recovering to the 1951 level in 1953.

[Here follows a chart indicating the way in which population increases outpaced the rise in gross national product and food production in Latin America between 1950 and 1953.]

In the absence of production expansion, the persistent annual population increase of 2.5% led to reductions in the average Latin American standard of living as measured by per capita income in both 1952 and 1953. The declines generally took the form of reduced availability of food. FOA estimates average Latin American per capita GNP of $318 in 1953.

The recent slackening of economic progress relates in part to imbalances generated by the development efforts of the Latin American countries themselves and in part to changes in external factors such as international commodity markets.

1. Problems of Balanced Expansion

The numerous recent evidences of imbalance in Latin American development include payments crises, inflation, food and power shortages, and reduced petroleum production.

Although Latin America's aggregate holdings of gold and dollars increased by an estimated $252 million during 1953, critical payments situations developed in several countries, notably Brazil and Bolivia. Moreover, the overall rise in reserves would not have occurred without the Export-Import Bank's loan of $300 million to Brazil necessitated by a pressing backlog of commercial debts. In Peru, unfavorable year-end trends brought the sol-dollar exchange rate from 17.85 in October to 21.89 on January 26th. The President of Peru has requested a short term stabilization loan from the U.S. Treasury, particularly with a view to improving psychological attitudes on the exchange market.

Inflation is a problem of serious proportions in Bolivia and Paraguay. The cost of living has risen by 135% in La Paz and 72% in Asuncion during the past year. Inflationary pressures are continuing to a lesser, but still critical, extent in Brazil and Chile.

Food supply has become a major problem owing to population growth and under-emphasis on agricultural development. Food output per capita in 1952–53 was only 96% of the prewar quantity. Chronic food deficits exist in some countries, e.g. Haiti, and famine conditions have occasionally developed in various regions, e.g., the food shortage in early 1952 causing the migration of some 300,000 persons from northeastern Brazil.

Electric power rationing is a common necessity in Latin American cities. In view of the great need for rapid expansion in this sector, the rise of 8.7% in production during 1953 appears small in comparison with the increase of 11.5% achieved in the U.S.

Latin American production of crude oil declined about 2% in 1953 as compared with average annual increases of 11% from 1949 through 1952. Reduced levels of output were recorded not only by the major producer, Venezuela, but also in Bolivia, Mexico, and Peru. Latin American heavy crudes were facing soft markets with Middle East production substantially increased and U.S. imports reduced. The reversal of the production trend represents a foreign exchange loss and also aggravates fuel and energy shortages.

2. Trade and Commodity Problems

Although strengthened and diversified by post war programs for domestic development, most Latin American economies are still dominated by international commodity markets. Exports of primary goods are the principal source of income to finance imports

for current consumption and equipment required in implementation of development projects.

Substantial improvement in terms of trade was a major dynamic factor in Latin America's wartime and postwar economic growth. In October 1953 the area's terms of trade were still 64% more favorable than in 1938, following a decline of about 10% from the average in the peak year 1951. Post Korean price developments have had little impact on the aggregate Latin American terms of trade, but the effects in individual countries have ranged from crisis in tin-exporting Bolivia to general prosperity in the coffee-exporting countries.

The Latin American countries are aware of U.S. policy directed toward liberalization of trade and are disturbed by recent actual or proposed increases in U.S. import restrictions on lead, zinc, fuel oil, wool and oats. A number of individual trade and commodity problems continue to irritate economic relations between the U.S. and some of the Latin American countries. Uruguay, for example, has objected strongly to the U.S. decision that the preferential treatment by Uruguay of wool top exports was tantamount to a subsidy and that a compensatory duty on such imports was mandatory. Chile complained formally to the State Department regarding the alleged loss of her nitrate market in Greece due to unfair competition from U.S. exports of ammonium sulphate produced in plants which were purchased by present owners from the U.S. Government at 20% of cost. The Chilean Government has also felt that we should buy for stockpile in return for their promise to solve the internal copper problem and not to sell to Russia.

C. THE FUNDAMENTAL PROBLEM—ECONOMIC DEVELOPMENT

The promotion of rapid and balanced economic development on the basis of sound policy and planning is the principal objective of FOA in Latin America.

Latin America's potential for development has been demonstrated by postwar progress. The need for even more rapid development is evident in all of the available indicators of living standards. The insistent demands of the population for immediate economic improvement have an important bearing on internal politics and are of great importance in U.S. relations with the Latin American countries.

Development progress depends on three principal factors, all of which may be affected by internal political considerations in the Latin American countries: (1) realistic country development plans, (2) availability of investment capital, and (3) technical progress.

1. Country Development Plans

A majority of the Latin American countries now have economic development plans and agencies charged with coordinating their implementation.

Experience of Latin American governments in the development field has led to a new awareness of the need for balanced growth of industry, food supply, fuel and energy sources, and transport facilities. One major error in past planning has been corrected by new emphasis on food production in some countries, e.g. Mexico, Argentina, and Chile. Regional planning efforts by the Central American republics, by Brazil, Peru, Chile, and Argentina may or may not be another constructive step, depending on the nature of the results.

FOA has sought to improve country planning, particularly through provision of the technical knowledge on which country government decisions could be based and by advising governments on means of organizing effectively for development planning. U.S. responsibility for actual planning decisions has usually been avoided, however, except in response to specific invitation as in the case of the Joint Development Commission in Brazil. International organizations have a unique opportunity in this field because their advice is likely to be more acceptable than that of any one government.

2. The Need for Capital

Realization of Latin America's potential for economic development will require a huge investment of private and public capital from both domestic and foreign sources over an extended period. Since World War II total domestic and foreign investment in Latin America has averaged about $7 billion annually, with domestic investment accounting for over 90% of the total.

a. *Domestic Investment*

Over 90% of total investment in Latin America since World War II has been provided by domestic capital. From 1946 through 1952 the Latin American countries invested an average of some 16% of their GNP annually. Private investment accounts for the major portion of domestic capital formation, although in recent years government investment has increased in quantitative and qualitative importance. A substantial share of domestic investment has taken the form of relatively unproductive types of construction, speculative commercial ventures, and investments in consumer goods industries not directly serving development purposes.

b. *Foreign Investment*

[Here follows a chart indicating various aspects of the Latin American investment situation between 1950 and 1953.]

The low ratio of foreign to total investment in Latin America obscures the importance of foreign capital, which brings with it technical skills and has usually entered fields of particular importance to economic development. Foreign capital has also encouraged the flow of domestic capital into jointly financed development projects.

(1) *Public Loans*

Until 1948 the U.S. Export-Import Bank was the principal source of foreign public loans to Latin American countries for economic development. Since then the IBRD has assumed gradually increasing importance in this field and is currently making development loans in Latin America on a substantially larger scale than the Export-Import Bank. Present U.S. policy requires the Export-Import Bank to refer applicants for development loans to IBRD. Dr. Eisenhower's recommendations, however, point out the need for a U.S. lending agency to make development loans in the U.S. national interest which might not be made by IBRD.

(a) *International Bank*

IBRD loans to Latin American countries through December 31, 1953, totalled $446.8 million, of which $76.6 million was granted during 1953. Nearly 70% of the total investment is in electric power development with the balance spread out over railroads, highways, industry, agriculture, and ports.

(b) *Export-Import Bank*

Net active credit authorizations of the Export-Import Bank to Latin America as of December 31, 1953 amounted to $1,348 million, of which less than 10% was for electric power. Latin American industry has received loans totalling $244.2 million, with major emphasis on steel in Brazil, Chile, and Mexico. With the exception of a $300 million loan for Brazil, the Export-Import Bank's new authorizations in Latin America were extremely limited during 1953—$17.3 million—as compared with the annual average of $126.7 million from 1946 through 1952.

(2) *U.S. Grant Aid for Basic Public Works*

During World War II, with a view to effecting essential highway construction in the U.S. national interest, the U.S. undertook to contribute grant funds toward the financing of the Rama Road in Nicaragua and the Inter-American Highway. Total U.S. investment to date is $5 million in the Rama Road and $47 million in the Inter-American Highway. Estimated further cost to the U.S. before completion is $3 million for the former and $56 million for the latter.

(3) *Private Investment*

[Here follows a chart depicting the distribution of United States direct private investment to Latin America as of December 31, 1952.]

Latin America shared in the accelerated growth of U.S. private direct investment abroad during 1950–52, but to lesser extent than other areas, (i.e. up 25% as compared with 48% elsewhere). The total book value is now about $6 billion with Venezuela and Brazil each accounting for over $1 billion. The Brazilian total rose from $588 million at end of 1949 to $1,013 million at end of 1952. Petroleum is still the principal sector (over one-fourth of the Latin American total), but investments in manufacturing and in mining have been gaining rapidly in recent years.

During 1952 U.S. private direct investment in Latin America amounted to $582 million, of which $278 million represented net inflow of new capital and $304 million undistributed subsidiary earnings. In 1953 estimated net inflow of new capital dropped to $113 million, with undistributed earnings staying at $304 million. Recent changes in the private investment climate appear to be generally unfavorable. An intense spirit of economic nationalism continues to operate against the desire and the need for development.

Although the main responsibility for improving the private investment climate must rest with the country governments, there are a number of important U.S. measures in effect or being developed to increase the incentive of U.S. investors. Since the fundamental incentive for private investment is the anticipation of favorable markets, the major potential U.S. contribution in this field lies in fuller implementation of the established policy of encouraging Latin America exports to the U.S. The MSP investment guarantee program, thus far in Latin America limited to a contract with Haiti, will be given a further trial with coverage extended to risks of war, revolution, and insurrection (as recommended by the Randall Commission), in addition to the present coverage for risks of expropriation and inconvertibility. Another possibility for U.S. action is through tax incentive measures as recommended by Dr. Eisenhower and the Randall Commission. Finally, opportunities frequently arise for private investment directly related to U.S. technical assistance programs, e.g. the du Pont plant for insecticides in Peru, Bethlehem's investment in the manganese mines of Amapa in Brazil.

3. The Technical Base

U.S. assistance programs in Latin America have been directed primarily toward meeting the need for adequately trained technicians and to improve techniques in production and other fields. During the past twelve years some 20,000 Latin Americans have been trained on the job and more than 3,000 trainees have been brought to the U.S. for study. The impact of the programs has been magnified many times by trainees passing on new techniques

within their own countries and by inter-country technical exchanges which have been effected under U.S. programs and also at the initiative of the countries themselves. These programs have sought to increase *productivity* through projects relating to food supply, health, housing, and education; and to increase over-all *production* through projects in agriculture, industry, natural resources, power, and transportation. Congress appropriated $22.3 million for technical cooperation programs in the Latin American countries during FY 1954 and the countries themselves are making available the equivalent of $44.6 million.

E. MILITARY ASSISTANCE

1. Military Objectives

The military objectives of the U.S., vis-à-vis Latin America, are to establish an Inter-American defense structure which will insure the security of the strategic resources and lines of communication vital to the U.S., with a minimum diversion of U.S. forces; to insure internal security of the Latin American Republics; and to enable those countries to defend themselves against isolated attacks or raids.

2. Forces

Countries included in the Latin American program are: Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Cuba, and Dominican Republic. The forces to be supported include: *Army*, 9 battalions and 1 regimental combat team, mainly devoted to anti-aircraft and infantry operations; *navy*, 4 cruisers, 15 destroyers, 49 patrol craft, 4 submarines, 1 minecraft, and 1 reconnaissance squadron; *air force*, 10 fighter squadrons, 8 light bomber squadrons, 2 reconnaissance squadrons and 1 transport squadron.

3. Progress Report

Maintenance of equipment has in general been satisfactory. Some problems have been encountered in absorbing matériel, due to training inadequacies. Latin American countries have been slow to take advantage of U.S. training facilities provided under MDAP and this, added to inadequate facilities and a language barrier, has retarded the training programs.

[Here follow a six-page statistical program summary of the Foreign Operations Program submitted by the Office of the Director of Foreign Operations and a 38-page Department of Defense Annex on the Mutual Security Program, concluding Part 3, "The Mutual Security Program" of NSC 5407.]

U/MSA files, lot 56 D 551, "1955 Congressional Presentation MS Bill"

Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Acting Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] March 12, 1954.

Subject: FY 1955 Mutual Security Program

Discussion:

At your meeting today with Messrs. Stassen, Kyes and Dodge,[2] an effort will be made to resolve certain questions relating to the FY 1955 Mutual Security Program. Among the points which may be discussed are the following:

1. *The form of legislation*

FOA has prepared consolidated legislation repealing all existing statutes on foreign assistance and reenacting their provisions, including those on organization, in a single organic statute. The Secretary has indicated that he prefers the method of amending the existing laws since this will not prejudice the long-term organizational arrangements. However, it is possible to draft a bill which will meet the objections of the Department by omitting any references to organizational matters and the Act for International Development and simply consolidate the substantive provisions of the statutes governing military and economic aid.

2. *Appropriation of military aid funds and their merger with Department of Defense appropriation*

The problem is whether military aid funds should be appropriated directly to Defense or to the President. In the latter case they would be under Mr. Stassen's control. This question is not of direct concern to the Department. However, it is absolutely essential from a foreign policy point of view that regardless of where the funds are finally appropriated, arrangements be made to assure (a) adequate foreign policy guidance and control in the development and execution of military assistance programs, and (b) satisfactory reporting to the Department on progress and status of these programs.

3. *Administration and coordination of the foreign aid programs*

It has generally been agreed that for FY 1955 the existing arrangements, with FOA responsible for administration and coordination, subject to foreign policy guidance from the Secretary, should be continued.

4. *Coverage of the Military Assistance Appropriation*

The question here is whether the military aid appropriation should include funds for support of the Navarre Plan in Indo-China and certain common-use programs. We believe that funds for these programs should be sought as a part of the military assistance programs since their justification is directly related to military activi-

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[1] Drafted by George S. Newman, Special Assistant to the Secretary of State for Mutual Security Affairs.

[2] No record of such meeting has been found.

ties. They should, however, be clearly identified from the end-item program and probably be administered by FOA with assistance from Defense.

Another subject which you may wish to mention at the meeting is the problem of improving the present arrangements for bringing to bear foreign policy considerations on the military programs during their formulation and implementation on a more continuing basis. While present arrangements have functioned satisfactorily, they can be improved considerably to avoid the difficulties and delays that frequently occur. Recent examples of this problem are "Plan K" [3] and Defense policies and pricing criteria on off-shore procurement. A move in this direction might be to provide for State attending meetings of the Munitions Allocations Council (a Defense committee on which FOA sits as an observer).

[3] For documentation on Plan K, see volume VI.

U/MSA files, lot 56 D 551, "1955 Congressional Presentation"

Memorandum by the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] March 18, 1954.

Subject: Problems concerning Mutual Security Legislation.

FOA has prepared a draft bill which consolidates all foreign assistance legislation. This draft raises three principal issues, one substantive and two organizational, which should be settled at this time.

1. Substantive issue: Should the Act for International Development be repealed and reenacted as a part of the consolidated bill?

The present FOA draft includes the AID in the consolidated bill. We have taken the position the AID should not be repealed and reenacted. Consultation with Congressional leaders discloses a preference to have the consolidated legislation provide all authority to give assistance, including the AID. In light of this Congressional sentiment, it is recommended that you concur in Mr. Stassen's position that the AID should be included in the bill now being drafted but take the position that we should be prepared to change our position and delete the AID if it later appears that its inclusion will result in amendments adversely affecting the program.

2. Organizational issues:

[1] Drafted by Nolting and John P. Furman.

a. Organizational arrangements in Washington.

We have taken the position that existing organizational arrangements, contained in Reorganization Plan No. 7 and related documents, should be continued. The FOA draft legislation provides for a Foreign Operations Administration and for the position of coordinator as a part of the basic statute. Reorganization Plan No. 7 would be repealed. Such legislative provisions would not achieve the balance between agencies under the present complex of documents of which Reorganization Plan 7 is a part. It is unnecessary in order to continue existing arrangements to spell those out in the new legislation. It is suggested that you take the position that to ask Congress to enact into law organizational arrangements would risk precipitating in this year's presentation a major and unnecessary issue, and would also require the President to go back to Congress if he should wish to change such arrangements in the future. Therefore, we should continue existing arrangements under Reorganization Plan 7.

b. Organizational arrangements overseas.

The FOA draft bill would require that "special missions" of the European type be continued indefinitely wherever they now exist, regardless of the size of assistance programs, and that new such missions be created in additional countries if the Secretary of State agrees. The bill would also require that the chief FOA officers in all countries receive the pay and allowances of Class 3 or 4 chiefs of mission, regardless of the size of assistance programs. We understand, however, that Mr. Stassen is prepared to accord his views with yours on the subject of overseas missions. If the legislation is silent on Washington organization, it would follow logically that no provision would be included on overseas organization (except for any authority required to pay appropriate salaries to top FOA personnel overseas). It is recommended that you take the position that, in any event, no legislative provisions should be included which would prevent continuation of existing field arrangements (including Executive Order 10476 [2]) or prejudice more complete integration in overseas missions or the phasing out of existing "special missions" where assistance programs are being substantially reduced or liquidated. You will recall that you recommended to Mr. Stassen in September that separate aid missions should be liquidated in a number of European countries; the proposed legislation would require the continuation of such missions.

3. Level of aid to Israel.

Mr. Stassen may raise the question of the level of aid to Israel in FY 1955. Because of favorable developments in Israel's economic outlook, there is reason to think that grants to Israel can be substantially reduced next year. It is suggested that you reserve the Department's position on this subject pending consideration of staff work now underway.

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[2] For Executive Order 10476, dated Aug. 1, 1953, concerning the administration of foreign aid and foreign information functions, see 18 *Federal Register* 4537.

U/MSA files, lot 56 D 551, "Secty Memos of Conv"

Memorandum by the Special Assistant to the Secretary of State (O'Connor) to the Acting Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting)

WASHINGTON, March 20, 1954.

Re the Secretary's conversation Thursday night [1] with Mr. Stassen, I tried to debrief the Secretary on his dinner with Mr. Stassen and all I could get was the following fragmentary report. If this is inadequate or does not make sense let me know and I will go back to the charge.

1. Mr. Stassen thinks it is all right to continue another year or two on the present legislative organizational setup.
2. Mr. Stassen thinks that the $850 million for food is too high a figure.
3. On the East-West Trade talks, he would be willing to go abroad to open the talks and perhaps stay a week but he does not wish to stay on while the talks drag on discussing item after item on the list.

R. L. O'CONNOR

[1] Mar. 18.

S/S-NSC (Miscellaneous) files, lot 66 D 95, "Misc. NSC memos"

Memorandum by the Director of the Bureau of the Budget (Dodge) to the Acting Secretary of State [1]

SECRET [WASHINGTON,] March 24, 1954.

The President has asked for a committee to consider immediately the problems related to the presentation of the 1955 economic and military aid programs and make definitive recommendations for his consideration.

Secretary Humphrey will act as chairman, and the other members of the committee will be Under Secretary Smith of State, Deputy Secretary Kyes of Defense, Director Stassen of Foreign Operations Administration, and Director Dodge of Budget.

The principal issues which will need consideration are:

[1] Addressed also to Secretary Humphrey, Deputy Secretary Kyes, and Stassen. The source text comprises Annex A to the memorandum by Cutler to the President, Aug. 30, 1954, p. 740.

1. *Appropriation.*—Whether MDAP funds will be appropriated directly to DOD or appropriated to the President and allocated by him directly to DOD, including authority to merge MDAP funds with DOD funds.

2. *Presentation.*—Measures to ensure that the presentation and justification to the Congress of the MDAP program does not inherently involve a later substantial transfer of these funds to other economic programs, as historically has been the case.

A means of reducing these transfers to an absolute minimum and only as a result of complete justification and careful consideration, while maintaining the principle and authority for flexible transferability to meet unforseen real emergencies.

3. *Programming.*—The responsibility for handling the programming of MDAP funds in terms of any general policy issues related to programming and expenditure and also in terms of the day-to-day operations and details.

The above issue emphasizes the need for a method of maintaining the "country team" concept while giving greater emphasis to practical military requirements which may later be modified by political or other economic policy considerations.

4. *Commitments and expenditures.*—Measures to ensure adequate consideration of any requirements for new funds because no funds apparently are available for the purpose.

5. *Other subjects.*—The committee may also be asked to consider related matters such as some method of reviewing proposed dollar commitments to be made by executive personnel overseas, which are additions to existing programs, before these become binding on the Government.

JOS. M. DODGE

MSA-FOA Director's files, FRC 56 A 632, Box 1, "Bureau of Budget, 1954"

Minutes of the Meeting of the Special Committee on Foreign Operations Administration, April 6, 1954 [1]

CONFIDENTIAL

Present: Secretary George H. Humphrey and Deputy Secretary W. Randolph Burgess of Treasury; Under Secretary Walter Bedell Smith and Mr. Frederick E. Nolting of State; Director Harold E. Stassen and Mr. Morris Wolf of the Foreign Operations Administration; Vice Admiral A. C. Davis, General Stewart, Mr. O'Hara, and Mr. Clive L. DuVal, Defense; and Director Joseph M. Dodge and Deputy Director Rowland R. Hughes, Bureau of the Budget. General Persons and Mr. Bryce Harlow of the White House staff also were present for part of the meeting.

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[1] These minutes were transmitted by Hughes to Stassen on June 2 for comment. Regarding the origins of the Special Committee, see the memorandum from Dodge to Smith, Humphrey, Kyes, and Stassen, Mar. 24, *supra*.

Secretary Humphrey opened the session and pointed out that since a large part of the program had been presented to the Security Council,[2] the Cabinet, the legislative leaders, and was being presented the next day before a congressional committee, perhaps in practice some of the decisions may have been made already. He emphasized the necessity for direct handling of the MDAP programs, prevention of duplication and unnecessary costs, the lessening of the wasteful revisions in details of the program now often made after the general lines had been established.

Mr. Hughes pointed out that the immediate questions to be resolved, and which were not involved in the presentations by Mr. Stassen to which Secretary Humphrey referred, related to the method of handling appropriations and technical matters, not the amount of the programs. He said there were two matters pending; one, the bill which had to be presented to the substantive committees of the Congress; and the other, a report on action which the Bureau of the Budget and the other interested agencies had been requested to make by the Appropriations Committees concerning the merging of mutual military assistance with Defense Department funds. Mr. Hughes said that all matters had been agreed upon and a draft of the report had been accepted, after revisions, by all parties, except for three points:

1. Whether MDAP appropriations should be made direct to Defense or to the President, and if appropriated to the President, how they should be allocated.
2. The degree of supervision to be exercised by FOA over the programs in either case; the proposal of Defense (as presented in its March 13 revision of the draft letters to Senator Bridges and Representative Taber on the new MDAP financial plan) being that programming and commitments shall be in accordance with "Policies and general program levels determined through coordination with the Department of State and the Foreign Operations Administration", and the proposal of FOA being that they shall be in accordance with "program approval given by the Foreign Operations Administration".
3. Whether the transferability authority needed by the President should be 15 percent as recommended by FOA or 10 percent, with a limitation of changes to those due to conditions arising after the original setting of the programs or because of major policy changes.

There was full discussion, and particularly consideration of the absolute necessity of maintaining the President's authority to make transfers, the advantages and disadvantages of various moves

[2] The memorandum of discussion at the 191st meeting of the National Security Council, Apr. 1, cites, but does not describe, an oral presentation by Stassen and subsequent discussion. (Eisenhower Library, Eisenhower papers, Whitman file) A briefing memorandum of Apr. 1, prepared by Nolting for the use of Secretary Dulles at the Council meeting is in the S/S–NSC files, lot 66 D 148, "Misc. NSC Memos."

in terms of acceptance by the Congress and the public, and elimination of the many frictions and delays in the operations as now conducted, particularly as between Defense and FOA.

Mr. Dodge brought forth his previously discussed proposal to the effect that the appropriate agency would program the full appropriation for each of the seven budgetary categories but by Executive action 25 percent of the appropriations representing lowest priority items would be retained temporarily. On this basis, there would be funds available to complete the planned programs subject only to reductions to meet emergency considerations as they arise.

After a long discussion it was agreed:

1. That appropriations for military programs will be made to the President and allocated by him directly to Defense.
2. That requests for such appropriations will be prepared for and made to the Congress by FOA under general guidelines and policy including the military aid program, determined by agreement between State, Defense, Treasury and FOA. Thereafter, the function of FOA shall be identified as coordination and will not involve detailed supervision and direction of the military program.
3. To retain the present authority in the President to make transfers up to 10 percent.
4. Director Dodge's proposal for an informal reserve for emergencies to be retained by the Bureau of the Budget would be worked up subsequently and adopted.

Editorial Note

President Eisenhower submitted his Special Message to the Congress on the Mutual Security program for fiscal year 1955 on June 23, 1954. The President stated that his recommendations were "essential to the efforts of the United States in the fields of international relations and national defense." He added that the Mutual Security program was "based upon the sound premise that there can be no safety for any of us except in cooperative efforts to build and sustain the strength of all free peoples. Above all else communist strategy seeks to divide, to isolate, to weaken. The mutual security program is an important means by which to counter this strategy." He asked Congress to authorize new appropriations in the amount of approximately $3.5 billion, which represented about a 40 percent reduction in the Mutual Security program in 2 years. "Because the new program is in large measure a continuation of existing programs," he added, "its success requires reauthorization for expenditure of funds that are still unexpended." The President recommended that his $3.5 billion request be allocated as follows: approximately $900 million for Europe; $570 million for the Near East, Africa, and South Asia; $1,770 million for the Far East and

the Pacific; $47 million for Latin America; and $165 million for non-regional programs. The President's Special Message is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954,* pages 590–594.

House hearings on the mutual security appropriations for 1955 began on Wednesday, July 7, 1954 and closed on Saturday, July 17. The hearings were printed as U.S. House of Representatives, *Mutual Security Appropriations for 1955*, July 1954, 83d Cong., 2d sess. Senate hearings opened on Friday, July 16, 1954, and concluded on Tuesday, July 27. These hearings were printed as U.S. Senate, *Mutual Security Appropriations for 1955*, July 1954, 83d Cong., 2d sess.

700.5 MSP/7-1254

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

CONFIDENTIAL WASHINGTON, July 12, 1954.

Subject: Briefing for your appearance before the Senate Foreign Relations Committee this Afternoon, 3:00 P.M. on the Mutual Security Bill [1]

Four points will possibly be up for discussion:

1. *Mansfield's amendment to abolish the FOA* January 1, 1955, (discussed in separate memorandum).[2]

2. *EDC amendment.* I spoke with Senator Smith this morning who suggested that the way to handle it might be to have no "Richards Amendment"[3] at all, since the feeling of the Senate Committee is that the present House amendment does not have sufficient teeth in it and since the Executive Branch has objections to the Senate version for reasons (1) that it opens up an alternative to EDC and thus removes pressure from the French, and (2) that cutting off the pipeline from France and Italy would have disastrous effect upon NATO defenses, as pointed out by General Grunther. Arguments for the Richards Amendment as contained in the House bill are as follows:

a. It keeps pressure on France and Italy to ratify EDC but does not legislate a strict deadline.

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[1] No record of Secretary Dulles' or Under Secretary Smith's testimony before the Senate Foreign Relations Committee on July 12, 1954, has been found.

[2] *Infra.*

[3] Regarding the amendment to foreign aid legislation first introduced by Representative James Richards (D.-S.C.) in 1953 forbidding aid to those European countries which failed to ratify the treaty establishing a European Defense Community, see the editorial note in vol. v, Part 1, p. 973.

b. It clearly demonstrates the preference of the Congress for EDC over an alternative solution.

c. It does not prejudge the question, as the Senate version does, whether the continued buildup of the NATO nations is in the U.S. interest in the event that no method of achieving a German contribution of forces is found by given date. (Marked passages of telegrams which you may wish to read to the Committee off the record, are attached.) [4]

3. *Question concerning Set-aside of Counterpart.* This involves the question of whether or not a mandatory 10 percent of local currency proceeds of sales of U.S. commodities should be included in the law. Existing agreements require 10 percent set-aside for European countries and varying amounts from approximately 5 to 10 percent, in other countries. There has arisen no shortage of funds for U.S. use as a result of the discretionary power in the Executive Branch to agree with other countries in the amounts to be reserved for our use. We consider it unnecessary to set a mandatory 10 percent provision and feel that it would cause difficulty and perhaps injury to programs in re-negotiating existing agreements, as would be required under the House proposal. Your reassurance on this point, I believe, is all that is necessary to achieve Senate support of our position.

4. *Anti-Locarno Amendment.*[5] The question was raised this morning concerning the precise meaning of the language adopted by the House. The matter was passed over in a rather vague fashion and may be brought up again this afternoon. If a question is raised concerning this amendment, it is suggested that you reply along the following lines:

The Department understands that this amendment is limited to the new funds and unexpended balances authorized for Southeast Asia and the western Pacific by Section 121 of the Mutual Security Act as passed by the House (H.R. 9678). (This amounts to a proposed new authorization of $800,000,000 and a carry-over of unexpended balances of approximately $590,000,000.)

The Act is intended to apply in case of treaties of the kind adopted at Locarno in October 1925. These Treaties guaranteed the maintenance of the territorial *status quo* of the frontier between Germany and Belgium and between Germany and France. The essential feature of the treaties was the manner in which the *status quo* should be maintained, namely, that if one of the parties violated the treaty by an act of aggression against another, each of the other parties would come immediately to the help of the party against whom the violation was directed.

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[4] The reference telegrams were not found with the source text.

[5] For information concerning the proposal by Foreign Secretary Anthony Eden of the United Kingdom for an "Asian Locarno" and the reaction of the U.S. House of Representatives thereto, see the editorial note, under date of June 23, 1954, in volume XII, Part 1.

700.5 MSP/7-1254

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

CONFIDENTIAL WASHINGTON, [July 12, 1954].

Subject: Position re Mansfield Amendment requiring abolition of FOA January 1, 1955, and transferring its functions to State and Defense.

This proposal, introduced this morning by Senator Mansfield, had strong support from the Democratic side and some support from the Republican side. Had the vote been taken this morning, it appeared that it would have been either a tie vote, 6–6, or 7–5 in favor. Senator Knowland moved that consideration be postponed until you could be heard on the question.

Principal arguments against the amendment follow:

1. The President stated in his message to the Congress of June 23 [1] that the FOA is performing "a necessary function and should be continued." (This was brought out in the debate this morning.)
2. The Secretary of State cannot be expected to give his personal attention to the operation of this very large program, including the essential coordination of military and economic aspects, and have any time left for the considered development of foreign policy.
3. The time limit of five months set in the amendment for the abolition of FOA is too short to permit an orderly transfer of functions without serious disruption of operations in a very critical period.
4. In the eleven months of operation of the FOA, satisfactory arrangements have been worked out to assure that the United States speaks with one voice abroad on all aspects of foreign policy matters. These arrangements are under constant review and are being perfected.
5. The reduction in the Aid program this year, and the shift toward agricultural surpluses and loans in lieu of granting economic aid, are evidence of the Administration's concern to reduce and to modify this program as rapidly as possible consistent with the national interest. The manner of administering the program is a matter which should be left to the discretion of the Chief Executive for at least another year, as provided in the legislation passed by the House.

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[1] See the editorial note, p. 736.

S/S–NSC (Miscellaneous) files, lot 66 D 95, "Misc. NSC memos"

Memorandum by the Special Assistant to the President for National Security Affairs (Cutler) to the President[1]

SECRET WASHINGTON, August 30, 1954.

Subject: Foreign Military Assistance

1. Early in August, with your approval, the above-mentioned item was scheduled on the Council agenda for the meeting on Thursday, September 2. However, this matter will not be ready for consideration on that date, and postponement is requested.

2. On February 4, 1954, the Council adopted and you approved the following action:

"No. 1029–c Requested the Department of Defense, in cooperation with the Foreign Operations Administration and the Bureau of the Budget, to study and report to the Council on a flexible program of providing U.S. military assistance to foreign nations in accordance with the availability of end-items and relative priority among recipient nations."

Up to the present time, the NSC Office has not received the report requested of the Department of Defense on the above subject. On August 10, 1954, the NSC Office received Mr. Hensel's preliminary "Suggestions for Securing Maximum Flexibility in the Mutual Defense Assistance Program".[2] However, the coordinated position of the Department of Defense is not yet available for Planning Board use.

3. On March 24, 1954, you appointed a Special Committee, composed of the Secretary of the Treasury, the Under Secretary of State, the Deputy Secretary of Defense, the Director of the Foreign Operations Administration, and the Director of the Bureau of the Budget, to consider various administrative and organizational as-

[1] The source text is accompanied by two memoranda. The first, dated Aug. 30, 1954, is from Acting Executive Secretary of the National Security Council Gleason to the NSC informing the Council that President Eisenhower had on that date approved the recommendations contained in this memorandum, copies of which were being transmitted to the NSC, the Secretary of the Treasury, the Chairman of the Joint Chiefs of Staff, and the Directors of the Bureau of the Budget and of Central Intelligence for their information "and is scheduled to be noted at the Council meeting on September 2." Also enclosed for information of the addressees was Annex A, a memorandum from Budget Director Dodge, Mar. 24, 1954, p. 733; Annex B, a memorandum, dated Apr. 6, 1954, of major decisions taken at the meeting of the Special Committee on the Foreign Operations Administration, p. 734; and Annex C, "Explanatory Statement on Major Points in the Mutual Security Program Executive Order", below. The second covering memorandum, dated Sept. 1, 1954, is from Nolting to Acting Secretary of State Smith and summarizes the Cutler memorandum with the recommendation that the "Council note Mr. Cutler's memorandum to the President."

[2] Not found in Department of State files, but see Annex C, below.

pects of the economic and military aid programs for FY 1955 (See Annex A). This Committee held a number of meetings, and reached decisions on certain proposals to be presented to Congress and on certain changes in the relationship between Defense and FOA (See Annex B). Congress recently completed action on the Mutual Security Act of 1954.[3] This Act provides for the termination of the Foreign Operations Administration by June 30, 1955, or sooner at the discretion of the President. While continuing in the Director of FOA the pre-existing function of coordination of all foreign aid programs and the operation of the economic and technical aid programs, the Act eliminates the previous assignment to the Director of FOA of continuous supervision and general direction of the military assistance program.

4. I am advised that the Bureau of the Budget has prepared and circulated to interested agencies for comment a draft Executive Order to deal with certain administrative and organizational aspects of the mutual security program.[4] Attached is an explanatory statement prepared by the Bureau of the Budget on what it considers to be the major points in its draft of a Mutual Security Program Executive Order and the accompanying Presidential letter (See Annex C). Certain of these points may have to be referred to the Special Committee for further discussion. It would seem appropriate for the Bureau of the Budget to complete its work on the Executive Order before the Planning Board undertakes whatever further action in this field may be suitable.

5. After consideration of this subject, I have come to regard it as having two main aspects. One aspect is the administrative and organizational set-up which will make possible flexible handling of the military assistance program. The second aspect of providing flexibility concerns a periodic review of current programming of unexpended MDAP funds in the light of the availability of end-items, relative priority among recipient nations, and current U.S. objectives, strategic concepts, etc.

6. With respect to the first aspect, the Department of Defense has submitted to the Bureau of the Budget its views on the draft Executive Order. I have also transmitted Mr. Hensel's preliminary memorandum to the Director of the Bureau of the Budget for consideration, in connection with its study of the proposed Executive Order. When the NSC Office receives from the Department of Defense the report requested of it, I will see that appropriate parts

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[3] See *Current Economic Developments*, Issue No. 449, Aug. 31, 1954, *infra*. Hearings on the Mutual Security Act of 1954 had been held in the House between Apr. 5 and June 8, 1954. They are printed in U.S. House of Representatives, *The Mutual Security Act of 1954*, April–June 1954, 83d Cong., 2d sess.

[4] Not found in Department of State files, but see Annex C, below.

thereof are also transmitted to the Director of the Bureau of the Budget for consideration.

7. With respect to the first aspect of this subject, I therefore recommend:

a. That the Special Committee take prompt action on any unresolved issues referred to it by the Bureau of the Budget on the proposed Executive Order, and that the latter be transmitted to you for signature as soon as possible,

b. That the Planning Board suspend consideration of the administrative and organizational aspects of this subject.

8. With respect to the second aspect of this subject, I recommend that the Planning Board give urgent consideration to developing recommendations, for submission to the Council, as to a mechanism to provide a periodic over-all review for the NSC of the broad aspects of the military assistance program, such as force levels, priorities and allocations of end-items and production capacities included in all uncompleted military assistance programs (totaling at June 30, 1954 approximately $7.6 billion), in the light of U.S. security objectives, strategic concepts and other relevant considerations, and with the objective of obtaining the best possible balance in terms of U.S. security. The first of these reviews should, in connection with NATO, consider the possibility that General Gruenther's "New Approach" may be adopted.[5]

ROBERT CUTLER

Annex C

Paper Prepared in the Bureau of the Budget

[WASHINGTON, undated.]

EXPLANATORY STATEMENT ON MAJOR POINTS IN THE MUTUAL SECURITY PROGRAM EXECUTIVE ORDER

The following list covers most of the main points included in the attached draft Executive order under the new Mutual Security legislation.[6] Some of the material below such as that relating to interagency relationships, is not appropriate for the Executive order

[5] The memorandum of discussion at the 212th meeting of the National Security Council indicates that at that session Cutler informed the Council that President Eisenhower had approved the recommendations contained in paragraphs 7 and 8. A copy of the memorandum of discussion is in the Eisenhower Library, Eisenhower papers, Whitman file.

[6] Not found in Department of State files, but see the editorial note, p. 792.

itself, but the issuance of the order will be accompanied by a Presidential letter covering the pertinent items of relationships.

1. All military aid funds are to be automatically allocated to Defense.

2. All other MSP funds are to be automatically allocated to FOA.

3. FOA will continue the coordination of all foreign aid programs, but not supervision and direction of the military aid program. FOA will be subject to policy guidance from the Secretaries of State, Defense, and Treasury, in their respective fields. Within this context FOA will continue to exercise the determination of the dollar value of country military aid programs.

4. The Direct Forces Support programs (Indochina, Aircraft Manufacturing in U.K., and common use) will be administered by FOA.

5. The Director of FOA will exercise the functions relating to loans and the use of counterpart local currencies after consultation with the National Advisory Council. In the case of loans involving military aid, the Secretary of Defense shall be included in the consultation.

6. There will be reserved to the President the functions with respect to findings, determinations, certifications, agreements, transfers of funds, etc., in the same manner as provided by the current Executive order.

7. The Director of FOA will operate the Battle Act program[7] within specific appropriations for that purpose, with additional funds available for this purpose from military aid appropriations only on Presidential determination.

8. The functions of Munitions Control will be delegated to the Secretary of State subject to consultation with the interested departments and agencies as at present.

9. The Director of FOA will coordinate the implementation of the congressional requirement that $350 million of MSP funds be used for surplus agricultural commodities. The Director will determine the portions of the $350 million that will come from each of the various components of the MSP program and the utilization of local currency resulting from the sale of the commodities. The Director will coordinate this surplus disposal program with that under the Agricultural Trade Development Act, within the framework determined by the President in a separate Executive order on that Act.

10. The Secretary of Commerce is designated as the Officer to carry out the program to encourage travel. This assignment in no way diminishes State and FOA responsibilities to operate exchange and technical assistance programs, nor does it affect the responsibility of State to carry on diplomatic negotiations with other countries regarding the removal of legal barriers to international travel.

11. The responsibility for "finding" opportunities for investment and development abroad is delegated to the Director of FOA. The Secretary of State is to continue his regular work relating to finding opportunities abroad. The responsibility for "drawing the atten-

[7] For documentation on the Battle Act, see pp. 817 ff.

tion" of private enterprise to these opportunities is delegated to the Secretary of Commerce as part of his regular operations. The negotiation of treaties for commerce and trade is assigned to the Secretary of State, and the investment guarantee program remains in FOA.

12. The Office of Small Business is to be continued in FOA, and FOA will continue to cooperate with other agencies in carrying out this program.

Current Economic Developments, lot 70 D 467

Current Economic Developments

[Extract]

SECRET WASHINGTON, August 31, 1954.
Issue No. 449

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Mutual Security Program. Just before adjourning the Congress appropriated approximately $2.8 billion to carry out the Mutual Security Act of 1954,[1] some $650 million less than the President requested. (See page 6, April 27, 1954 issue.[2]) The Congress approved the use of nearly $2.5 billion in unobligated funds from previous years, bringing the total to $5.2 billion. The bulk of the new funds are for military assistance ($2.4 billion), reflecting the shift in emphasis away from economic aid, for which only $184.5 million is appropriated in contrast with $4.4 billion appropriated for that purpose in the peak year of 1948. Further, the Mutual Security Act specifically provides for termination of development assistance by June 1955. Not less than $200 million of the aid funds are to be used for loans. These are repayable in dollars, local currencies or materials, and are to be administered through the Eximbank.

The program is divided by functions into the following categories:

Mutual defense assistance—Title I Military assistance	$1,192,700,000
Southeast Asia, Western Pacific and direct forces support	795,000,000
Defense Support	431,098,195
Development Assistance—Title II	184,500,000
Technical Cooperation—Title III	116,457,621
Other Programs—Title IV	61,744,000

[1] The Mutual Security Act of 1954, signed by President Eisenhower on Aug. 26, 1954, is printed in 68 Stat. 832.

[2] Not printed; the issue of *Current Economic Developments* under reference contained a summary of the President's initial and tentative request to Congress for financial authorization for the Mutual Security program for fiscal year 1955. (*Current Economic Developments*, lot 70 D 467, Issue No. 440)

Transfer of funds is permitted up to 10% of the funds from any provision to any other, provided the amount for the latter is not increased by more than 20%.

The amount of $700,000,000 was included for support of forces of free nations in Southeast Asia, including furnishing, as far as possible, of direct assistance to the Associated States of Cambodia, Laos and Vietnam, as well as for other expenditures to accomplish in Southeast Asia and the Western Pacific the policies and purposes of the Mutual Security Act. So far as possible, aid is to be given directly to the peoples of the area. Broad discretion is given to the President in use of these funds. Provision is included, however, that none of the funds may be used for assistance to any nation which in the opinion of the President is not cooperating in common defense efforts against further Communist penetration and/or aggression.

The amount of $205,000,000 is appropriated for defense support, relief and rehabilitation, and other necessary assistance for Korea. In addition, $3 million is authorized for US contributions to the UN Korean Reconstruction Agency plus the $16 million of the unobligated balances heretofore made available for this purpose.

Development assistance appropriated includes $115 million for the Near East and Africa, $60.5 million for South Asia, and $9 million for the American Republics and non-self-governing territories in the Western Hemisphere. For the US technical cooperation program, $105 million is appropriated. In addition, approximately $9.9 million is appropriated to cover the amount pledged by the US to the UN expanded program of technical assistance for the calendar year 1954. Provision is included, however, that no commitment for the calendar year 1955 or thereafter shall be pledged on behalf of the US until the Congress appropriates for this purpose. The amount of $1.5 million is provided for the US contribution to the technical assistance program of the Organization of American States.

Of the total funds appropriated, not less than $350 million are to be used to finance export and sale for foreign currencies of surplus agricultural commodities, in addition to commodities transferred under the Agricultural Trade Development and Assistance Act of 1954. Stipulation is included that these sales are to be in accordance with the standards as to pricing and the use of private trade channels expressed in that Act (see above). The appropriation legislation further stipulates that $55 million of the unobligated balances shall be available only for the procurement and sale of sur-

plus agricultural commodities as assistance to Spain during the current fiscal year. It is further provided that 80% of the foreign currencies generated thereunder shall be used to strengthen and improve the civilian economy of Spain, the balance to be available for use of the US, provided however that this provision should not be construed as a precedent or as an abrogation of any agreement heretofore entered into.

The Act specifically provides for abolition of the Foreign Operations Administration by June 30, 1955. The President may transfer aid administration to any agency he chooses, except that the Act specifically states that technical cooperation is to be administered by the State Department following termination of FOA. The Congressional objective is that further aid programs necessary in the US interest will thereafter be administered by permanent executive departments.

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MSA-FOA Director's files, FRC 56 A 632, box 5, "Defense Department"

The Director of Foreign Operations (Stassen) to the Assistant Secretary of Defense for International Security Affairs (Hensel)

CONFIDENTIAL [WASHINGTON,] September 15, 1954.

DEAR STRUVE: Confirming our luncheon discussion, it is my suggestion that we proceed under the President's Executive Order as now drafted [1] to implement the Mutual Security Program for Fiscal Year 1955.

May I assure you that I have no intention under my powers as coordinator to endeavor to "control" or "supervise" the activities of the Department of Defense in carrying out their responsibilities in the program.

It is necessary, however, that the country programs be approved by the Director of the Foreign Operations Administration as a part of the coordination function, and in order to give this approval, a reasonable amount of the detailed information is required which I believe can be furnished without difficulty from the regular information you assemble for your own purposes in the Department of Defense.

It is likewise necessary, when a special question of implementation of some phase of the President's program arises, to then ask for additional detail in order to determine whether we can reach agreement or whether it is necessary to refer the matter to the

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[1] Draft copy not found, but see the editorial note, p. 792.

President for his supervising decision and control. The necessity for asking for detailed information on 105 and 155 millimeter howitzers in 1953 was an example of this kind of situation. As you know, by reason of our detailed requests and follow up, this question was resolved without Presidential intervention.

I am further agreeable that as the fiscal year proceeds, if at any point you feel that the Foreign Operations Administration is asking for information that they should not request, or is taking a position on an issue which represents "control" or "supervision" rather than "coordination," you raise it directly with me, and you and I will endeavor promptly to resolve it.

I am confident that the President's draft Executive Order does correctly state the basic responsibilities and authorities, and that by actual conduct under it we can establish a sound interpretation and carry out a harmonious relationship in the interests of United States objectives.

It is my view that the reserve which we are setting up will eliminate the re-programming problem which has caused difficulty in the past.

It is also my hope that a method of greater flexibility, through either setting up a "requirements program" on a long range basis and a "hard core procurement program" on a fiscal year basis, would further facilitate effective operations of the President's program. The current NSC study of the priority methods may help in this respect.

Thank you for your courteous attention to these matters. I look forward to working with you during the year.

Sincerely yours,

HAROLD E. STASSEN

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Memorandum by the Assistant Secretary of State for Congressional Relations (Morton) to the Under Secretary of State-designate (Hoover) [1]

CONFIDENTIAL WASHINGTON, September 20, 1954.

Subject: Planning for Assumption of Administration and Congressional Presentation of Foreign Economic Assistance Programs and for Coordination of Foreign Military Assistance Programs.

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[1] Herbert Clark Hoover, Jr., was designated as Under Secretary of State on Aug. 18, 1954. He formally assumed his post on Oct. 4.

In connection with our discussion this morning [2] of the Congressional directive that FOA go out of existence next June 30 and the State Department take over the administration of the economic programs, I think you should see the attached memorandum to the Secretary, prepared jointly by Fritz Nolting and my office after consultation with Charlie Saltzman.[3]

There are two very important problems involved:

The first is the takeover of administration. The attached memorandum deals primarily with this and concludes with the points I mentioned to you this morning, namely, that regardless of whether the Executive Branch may persuade the Congress next spring to allow FOA to continue, this is so uncertain and the planning for an assumption of administrative responsibility is so great that prudence requires us to start making the necessary plans at once.

The second is the presentation to the next Congress of the economic and military assistance programs for fiscal year 1956. In recent years during the existence of MSA and FOA, the preparation and presentation of these programs to the Congress, an extremely large and complex mass of legislation, has been coordinated by FOA. It was plainly indicated during the hearings this summer that the Congress expects next year's programs to be presented by State and Defense. Although it will, of course, be necessary (and acceptable to the Congress) to use many of the existing FOA experts as witnesses, this Department will have to be responsible for the presentation of the economic programs and for coordinating the presentation by Defense of the military programs. This also requires early preparation.

I believe the Secretary agrees that we cannot delay in getting started to make plans, even though we may still hope to avoid the necessity of putting them into effect. However, I believe it is essential that, before going ahead on this basis, understanding to this effect be reached with the President, Mr. Stassen and Secretary Wilson, and Director Hughes. I do not believe that the Secretary or General Smith have yet had an opportunity to deal with this.

THRUSTON B. MORTON

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[2] No record of the conversation under reference has been found in Department of State files.

[3] Attachment 1 below.

[Attachment 1]

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State [4]

CONFIDENTIAL [WASHINGTON,] September 9, 1954.

Subject: Planning for Assumption of Administration of Foreign Economic Assistance Programs and Coordination of Foreign Military Assistance Programs.

Problem

An early decision is needed on arrangements to be made in connection with the Congressional directive to transfer FOA's administration of foreign economic and military aid programs to State and Defense.

Background

The Mutual Security Act of 1954 contains the following provisions regarding administration and termination of functions of foreign economic and military assistance programs:

1. Section 503(c): "Unless sooner abolished under Section 525, the Foreign Operations Administration shall cease to exist at the close of June 30, 1955."

2. Section 525 states: "The President may transfer to any agency or officer of the United States, and may modify or abolish, any function, office or entity of the Foreign Operations Administration or any officer or employee thereof, and may transfer such personnel, property, records, and functions as may be necessary incident thereto."

3. Section 503(b) provides that "after June 30, 1955 none of the authority conferred by this Act may be exercised for the purpose of carrying out any function authorized by Title II" (relating to development assistance) and allows a twelve-month liquidation period authorizing the President to transfer the functions authorized by Title II to another agency for the purpose of liquidation. (The provision of the Mansfield amendment terminating the military assistance program was deleted in the Senate-House Conference.)

4. Section 521(b) says: "After June 30, 1955 the President shall exercise the powers conferred upon him under Title III of this Act through the Secretary of State." (This refers to the Technical Assistance Program.)

Although no provision is contained in the Act for the future administration of the Military Assistance Program, it was repeatedly

[4] Sent through Charles Saltzman, Under Secretary of State for Administration.

indicated by the Congress that it should be administered by the Department of Defense.

The Congress also strongly indicated its intention that the presentation of any future request for additional foreign aid should be presented by the appropriate *regular* agency of the Government. Experience has shown that the massive preparations required for the formulation and presentation of programs of this size and complexity must be begun within the next few weeks. Estimates for Fiscal Year 1956 must be ready for the President's Budget Message in January.

Discussion

It is the view of H and S/MSA that the legislative provisions and views stated above express the firm decision of the Congress which, in the absence of some international emergency, will be final. Although it is conceivable that vigorous representations by the President to the Eighty-fourth Congress might obtain a continuation of FOA, it is our view that this would be at the cost of a considerable measure of support for the mutual assistance programs. Furthermore, it will not be possible to know whether such an effort could succeed until sometime after Congress convenes. The preparation of materials needed to develop and present Fiscal Year 1956 programs to the Congress, and the orderly dissolution of FOA and transfer of functions and needed personnel to the Departments of State and Defense, require planning and considerable time. If a decision is postponed until Congress convenes in January, and if it is then determined to be inadvisable or impossible to obtain a continuation of FOA, the Executive Branch would be left in an unprepared position both with respect to the presentation of the Fiscal Year 1956 program to Congress and with respect to administering the programs after June 30, 1955.

The personnel problems involved are significant. FOA may not be able to carry out its responsibilities effectively this year unless its personnel have some assurance regarding their future. State and Defense should make early plans to employ those skilled officers who may be needed in the future. In addition, absorbing large numbers of FOA personnel will have a substantial effect on the Department's integration program and must be planned for. Finally, it may be found necessary for the Department to request legislation for additional statutory offices and for the organizational structure needed to administer the program. Planning for any needed legislation should not be delayed.

Recommendation

It is recommended that you meet at an early time with Secretary Wilson, Secretary Humphrey, Mr. Stassen, and Mr. Hughes on this

problem, in order to decide upon a recommendation to the President on a course of action, and that you take the position that, regardless of any possible effort to persuade the Eighty-fourth Congress to continue FOA, planning for a changeover must go forward at once. A draft memorandum to the President is attached as a suggested instrument for setting such planning in motion.

Concurrences

H—Mr. Morton
A—Mr. Carpenter

[Attachment 2]

Draft Memorandum for the President Prepared by the Special Assistant to the Assistant Secretary of State for Congressional Relations (Claxton) [5]

OFFICIAL USE ONLY [WASHINGTON,] September 9, 1954.

Subject: Planning for Transfer of Administration of Foreign Economic and Military Assistance Programs

The Congress in enacting the Mutual Security Act of 1954 has directed that the Foreign Operations Administration shall cease to exist no later than June 30, 1955. It has directed that the administration of foreign technical assistance be transferred to the Department of State and has indicated its intention that military assistance shall be administered by the Department of Defense. It has also indicated that all requests to the Congress for future foreign economic or military assistance shall be made by the appropriate regular agency of the Government. The pertinent statements are attached.[6]

As you know, it is my belief—which I stated to the Congressional Committees—that the Foreign Operations Administration is functioning effectively and should continue. However, in view of the carefully considered and determined action of the Congress there seems little likelihood that the 84th Congress can be persuaded to reverse the 83rd.

In any event, the magnitude of the task of transferring the economic and military functions now administered by FOA and of preparing the extensive material necessary for the presentation of

[5] Cleared by the offices of the Special Assistant to the Secretary of State for Mutual Security Affairs, the Assistant Secretary of State for Congressional Relations, and the Assistant Secretary of State for Personnel and Administration. This memorandum apparently was not transmitted to the President; see the memorandum by Under Secretary Smith to Secretary Dulles, *infra*.

[6] Not printed.

next year's economic and military aid programs is so great and so urgent that planning for it cannot be safely deferred until a determination can be made as to the attitude of the 84th Congress. I believe it is necessary that planning for the transfer and for next year's programs go forward at once—if only on a tentative basis and subject to a possible halt. It is also most important that the skilled and loyal employees of FOA be given some indication of their future and that early arrangements be made to transfer and retain those whose services will be needed.

Such planning obviously is of major concern to the Foreign Operations Administrator, the Department of Defense, and the Department of State, and of interest to the Bureau of the Budget and a number of other agencies. In order to get the necessary planning under way at once, I suggest that you authorize Secretary Wilson, Mr. Stassen, and me (or our representatives) to begin work at once on the necessary plans, coordinating with Mr. Hughes and other interested agencies as necessary.

A/MS files, lot 54 D 291, "Foreign Operations Administration"

Memorandum by the Under Secretary of State (Smith) to the Secretary of State [1]

CONFIDENTIAL [WASHINGTON,] September 23, 1954.

I discussed the substance of the attached memorandum from Mr. Nolting [2] with Secretary Humphrey privately. We both agree that:

(a) The 84th Congress is very likely to terminate FOA as an operating organization. Secretary Humphrey goes further and says that in his opinion even vigorous representations by the President will not prevent this.

(b) Planning for the orderly dissolution of FOA and the transfer of functions and needed personnel should be done as soon as possible.

(c) This planning must be done on a highly restricted basis because of the effect on FOA's present operations and personnel.

Secretary Humphrey feels, and I agree, that it is essential for Director of the Budget Hughes to participate, and that little progress would be made in his absence. We do not think we should discuss this with the Deputy Director. Mr. Hughes will return on October 5, and I suggest that immediately thereafter you or Mr. Hoover ask

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[1] Also addressed to Under Secretary of State-designate Hoover.

[2] Reference is presumably to the memorandum by Nolting to the Secretary of State, dated Sept. 9, 1954, which is printed as Attachment 1 to the memorandum by Assistant Secretary Morton to Under Secretary-designate Hoover, dated Sept. 20, 1954, *supra*.

him to call a meeting on his own initiative of Secretary Humphrey, Secretary Wilson, and yourself or Mr. Hoover, together with Mr. Stassen, in order to discuss the problems presented by the possibility that, regardless of any effort to persuade the 84th Congress to the contrary, FOA may be discontinued. I think it is better to initiate the action this way than for you to go to the President about it, as organizational planning of this kind is one of the functions of the Budget Bureau. Secretary Humphrey is at present acting as a "non-partisan" chairman or arbitrator to iron out the dispute between the Defense Department and FOA regarding the extent of coordination. He said that a solution written by him could not remain effective because of the different interpretations of coordination, and he would prefer this matter of organizational planning to be done by other than those who participated in the unsuccessful exercise.

W.B.S.

U/MSA files, lot 56 D 551, "MSP FY 1956"

Memorandum by the Director of Foreign Operations (Stassen) to the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) [1]

SECRET

WASHINGTON, October 1, 1954.

Subject: Development of the FY 1956 Mutual Security Program

I. Introduction

A. *Purpose of this memorandum*

This memorandum is designed to provide the assumptions, guidelines and other instructions required for the preparation, and submission to the Bureau of the Budget, of the initial FY 1956 Mutual Security Program. It is intended to give the minimum guidance necessary for the orderly development by all agencies concerned of an integrated and coherent presentation which is responsive to the totality of U.S. foreign aid requirements and which, in all of its

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[1] On Oct. 5, 1954, Nolting circulated a memorandum to various bureaus and regional offices in the Department of State in which he noted that this report "was informally coordinated with this Department through S/MSA at the time of first draft" but that the pressure of a "rigid deadline" set by the Bureau of the Budget had precluded careful review and comment by the Department of State. For this reason, he continued, "I have reserved this Department's position with FOA and any serious objections arising from the more thorough review of the current paper will be taken into account." He concluded with the assurance that he was "ready to receive and to see that careful consideration is given to any comment suggesting major changes in the current paper." (Memorandum by Nolting to Assistant Secretary of State for Economic Affairs Waugh; U/MSA files, lot 56 D 551, "MSP FY 1956")

component parts, reflects consistent assumptions and a full regard for the inter-acting effects of the various political, economic and military factors which are involved. The memorandum does not, however, deal with the details to be covered in, and format of, each type of program submission. The latter problem has already, to the extent that it necessitates central instructions, been disposed of informally by agreement among all those concerned. Any further questions on this subject should be addressed to Mr. Robert Black of FOA, Room 318, Executive Office Building, Ext. 3841.

B. *Weight to be accorded to the assumptions and planning figures set forth in this memorandum*

1. *Assumptions*—Except where specifically otherwise stated, all assumptions which are set forth in this memorandum are to be considered by all programming offices affected as established premises upon which their programs are to be developed. However, in recognition of (1) the fluidity of the present world situation and (2) the desirability of securing original, constructive and imaginative approaches to the fundamental problems with which the foreign aid program is intended to deal, each programming office is invited to submit any alternative programs which are based on alternative assumptions whenever it feels (i) that such an alternative approach might provide a better solution to problems falling within its cognizance than solutions which are predicated on the assumptions contained in this memorandum, or (ii) that the assumptions themselves are untenable or unwise.

2. *"Planning figures"*—The "planning figures" which are provided in the case of certain programs have a status and force entirely different from that of the other assumptions set out in this memorandum. The "planning figure" for any specific program does not represent a ceiling within which such program must be prepared, but rather a general reference point for programmers with respect to the general order of magnitude which, in the absence of a convincing contrary demonstration, might be indicated by fiscal considerations. Programmers will be at liberty, if they feel that the requirements so dictate, to depart from any such figure, either upwards or downwards, by any margin which they consider desirable, but they should understand that the further a given program submission deviates from its planning figure the greater the justification which will be required therefor. In the case of many programs, no "planning figure" is given because, due to major uncertainties with respect to the nature of the programs required, there appears to be no logical method of deriving such a figure at this time except through the programming process itself.

C. *Primary responsibility for the development of specific programs*

There are set forth below the assignments of primary responsibility for the development and submission of each of the various separate components of the Mutual Security Program. It should be noted that an assignment of primary responsibility does not elimi-

nate the necessity of coordination and clearance of program by the assignee with other agencies involved in its final approval.

1. *Military assistance*—The Department of Defense will be primarily responsible for the development of all military assistance programs, including but not limited to those relating to end-items, training, overseas facility development, mutual special weapons, infrastructure, contributions to the military cost of international organizations (NATO, SEATO), etc.

2. *Non-military programs*

a. Programs of direct forces support, defense support, development assistance, and technical cooperation for any geographic region and its political sub-divisions will be the primary responsibility of the FOA regional offices having cognizance in such region, working closely with their counterparts in the Department of State. In the case of technical cooperation programs, this responsibility will include the preparation of that portion of the program which relates to the domestic program costs associated with executing the programs in the region concerned, but such domestic program costs will be developed under common instructions which should be provided to the regional offices by the FOA Deputy Director for Technical Services and the FOA Controller, with the initiative to be taken by the latter.

b. The consideration of, and the preparation of any program covering, those technical cooperation requirements which are not regional in character will be a primary responsibility of the Deputy Director for Technical Services, and he should submit such proposals, if any, as he considers desirable, with respect thereto. The same assignment of responsibilities applies to any non-regional proposals with respect to development assistance as, for example, any proposal for contributions to an international development fund, to an international finance corporation, or to any similar operation.

c. A program covering the U.S. contribution to UNTA should be developed by the Department of State in close conjunction with the Deputy Director for Technical Services of FOA.

d. The Assistant Director of FOA for Refugees, Migration and Voluntary Assistance will have primary responsibility for developing any program covering ICEM (in close coordination with the Department of State) and the voluntary agencies.

e. The Assistant Director of FOA for Refugees, Migration and Voluntary Assistance will be responsible for developing, in coordination with the Deputy Director for Technical Services, estimates covering any programs for the disposal of surplus agricultural commodities through the voluntary agencies. In addition, the FOA Deputy Director for Technical Services will submit detailed information covering the extent to which, if any, on the assumption that Mutual Security funds would be used for this purpose, funds will be required in FY 1956 to finance the transportation costs for any programs for the disposal of surplus agricultural commodities which are additional to those referred to in the preceding sentence and for which the source of transportation costs is not already specifically provided.

f. The FOA Deputy Director for Mutual Defense Assistance Control will have primary responsibility for developing a program cov-

ering the expenses of carrying out the Mutual Defense Assistance Control Act (the "Battle Act").

g. The Department of State will have primary responsibility for developing submissions covering U.S. contributions to NATO civilian headquarters, any U.S. contributions for funds administered by the UN High Commissioner for Refugees (in coordination with the FOA Assistant Director for Refugees, Migration and Voluntary Assistance) and any other contributions to international organizations that (i) are not regional in character and (ii) are not covered by other assignments of responsibility herein. U.S. contributions to UNKRA and UNRWA are considered regional programs for purposes of this subparagraph, and the FOA Regional Directors for FE and NEA will respectively have primary responsibility for the development of these programs, in each instance in close coordination with the Department of State, and, in the case of UNRWA, in conjunction with the Assistant Director of FOA for Refugees, Migration and Voluntary Assistance.

h. The FOA Assistant Director for Refugees, Migration and Voluntary Assistance should, in close coordination with the Department of State (and to the extent appropriate, with the Department of Defense), prepare a program relating to escapees.

i. The FOA Deputy Director for Management will be responsible for preparing a program covering the administrative expenses of the non-military portions of the Mutual Security Program.

j. A program covering the U.S. contribution to OAS should be developed by the Department of State in close conjunction with the FOA Regional Director for Latin America.

k. A program covering the U.S. contribution to UNICEF should be developed by the Department of State in coordination with the Assistant Director of FOA for Refugees, Migration and Voluntary Assistance.

The administrative expenses of the military portion of the program will be embodied in the Department of Defense submission referred to in 1 above.

[Here follows brief discussion of the timing of submissions and the procedures to be followed in preparing and submitting programs.]

II. General Assumptions and Instructions

The most fundamental consideration to be kept in mind by all those who participate in the development of the FY 1956 program is the objective of preparing a program which makes the maximum contribution to U.S. foreign policy with the minimum possible use of U.S. resources.

A. *The Mutual Security Program for FY 1956 should be planned on the basis of the following general assumptions:*

1. The threat of the security of the United States and other parts of the free world from external aggression will continue in somewhat like its present form and at least at its present degree of intensity. There will be no overt military aggression against the free

world during FY 1956; the truce in Indochina will be maintained, but the threat of renewed hostilities will prevail throughout the period.

2. The U.S. will continue its current effort to exercise political, military and economic leadership throughout the free world to meet the threat to its security, and the Mutual Security Program will continue to constitute one of the primary instruments of U.S. foreign policy in the exercise of this leadership.

3. The U.S. will, if necessary to meet *increased* Soviet bloc capabilities, increase its own expenditures for security purposes. In this connection it will be assumed that U.S. production of end-items and/or the allocation of end-items from available production and stocks for foreign aid purposes could be increased if a policy decision to enlarge or accelerate MDAP deliveries were made. It will also be assumed, except as otherwise stated in the case of individual countries, that there will be no developments during or before FY 1956 which will significantly lessen the present political and economic obstacles to increases over present levels in the defense expenditures of other countries in the free world.

4. It will be U.S. policy to extend assistance to meet critical emergency situations (disasters resulting from droughts, floods, earthquakes, hurricanes, etc.) which develop in the free world and, in some cases in the Soviet bloc. Such assistance will normally be in the form of, but will not be limited to, agricultural commodities supplied under Title II of Public Law 480 or from special funds authorized by the FY 1956 Mutual Security Program.

5. Economic activity in the United States and elsewhere in the free world will continue at a high level. There will be increased trade between the free world and the Soviet bloc in non-strategic items.

6. U.S. private investment abroad will increase moderately but, in general, the climate for private foreign investment will not yet have improved significantly in most countries.

7. Except in extraordinary instances, assistance under the Mutual Security Program will not be used for purposes of preclusive buying or as a specific means of deflecting trade from, or decreasing trade with, the Soviet bloc. (To the extent that this specific assumption may need to be modified, it will be assumed that funds other than those called for in the programs to be submitted in this memorandum will be provided. However, regional program offices are urged to bring to the attention of the Deputy Director for Mutual Defense Assistance Control any instances in which the availability of additional funds might make it possible and desirable to take advantage of opportunities of such character.)

8. Without reference to specific commodities, the prices of which may fluctuate significantly, it will be assumed that there will be no general increase in the price of basic commodities on the world market and that if a change in this price level should occur, it is more likely to represent a decrease than an increase. Where particular programs would be significantly affected by price variations in one or two major commodities, program officers should consult commodity experts and, if assumptions as to price changes are made, such assumptions should be specifically stated in the program which is submitted.

9. Pending a governmental decision with respect to future organization for the conduct of foreign aid matters, it will be assumed to the extent that this is necessary for purposes of this particular submission, but only for such purposes, future developments or agency positions in this regard, that present arrangements with respect to the organization and administration of the Mutual Security Program will continue in effect through at least FY 1956.

10. It will be assumed that no arbitrary liquidation periods will be imposed by the Congress with respect to any programs which Congress authorized for financing in FY 1956. It will also be assumed that there will be a Mutual Security Program in FY's 1957 and 1958, and probably beyond, which has components comparable to, if not identical with, all the major components of the present program.

11. It will be assumed that U.S. trade policies will remain as liberal as at present, that further moderate liberalization of these policies may occur in FY 1956, but that, in the latter event, the economic consequences of such further liberalization will not be felt until after FY 1956.

B. *The following general instructions are also provided:*

1. All submissions will include an analysis of current and prospective pipelines, deliveries and expenditures out of both (a) FY 1955 and prior year funds and (b) FY 1955 funds. In this connection the following guidance from the Bureau of the Budget is relevant:

"Where formerly programs were developed primarily in terms of program requirements and with much less regard to the expenditure impact, the current budget situation requires that programs be developed in the light of estimated expenditures or shipments of programmed items. With this objective in mind, there should be greater emphasis on the current levels and trend of expenditures and the relationship of the expenditures to the requested new obligation authority."

2. It will be the responsibility of each FOA regional office to prepare, and to submit simultaneously with its program proposals, a projection which has been coordinated with the Department of

State of the probable defense expenditures during FY's 1956, 1957 and 1958 of each country in which the United States now has, or proposes to have, a military assistance program. This projection should, in each instance, represent the best obtainable estimate of the politico-economic capabilities of the country in question. It should be broken down, where possible, among major categories of expenditure in the same general format as is used in the case of country submissions to the NATO Annual Review. To the extent practical, this material should be developed or reviewed at the country level by the country teams, with the MAAG providing all information which he has available on this subject. A comparison should be made of expenditures for like purposes in FY 1954 and FY 1955. Particular emphasis should be placed on any changes in a country's ability to finance production of major material. Comments on the ability of the country to sustain higher defense expenditures, on the possible political and economic impact of higher expenditures should also be included.

3. It will be the responsibility of the Department of Defense to provide the regional programming offices of FOA with estimates by regions and, where possible, by countries with respect to (a) the expenditures of U.S. armed forces overseas and (b) expenditures for offshore procurement. In the case of Europe this information should be provided directly to the FOA Regional Director for Europe, in the case of Turkey and Greece, to the FOA Regional Director for the Near East and Africa, and in the case of Japan, Formosa and Korea, to the FOA Regional Director for the Far East. In each instance copies of the material furnished should be provided to Mr. Nolting of the Department of State and to the FOA Deputy Director for Program and Planning. This information is fundamental to FOA planning and therefore should be provided at the earliest possible date, initially, if necessary, in rough and tentative form. Representatives of the responsible FOA offices should discuss this matter directly with representatives of the Department of Defense.

4. It will be the responsibility of the Department of Defense to provide the FOA Deputy Director for Program and Planning at the earliest possible moment, for distribution by him on an individual basis to the FOA regional officials concerned: (a) its estimate of the force levels which will be maintained in countries receiving military aid during the years FY 1956–FY 1958; (b) the force levels against which the military aid program is being developed; and (c) the approximate level of U.S. end-item deliveries in each region and country during each of the years in this 3-year period.

5. Each FOA regional office will, simultaneously with the submission of its program proposals, transmit information covering

emergency or disaster situations which have occurred within its region during each of FY's 1953, 1954 and 1955, indicating (a) the value and form of any assistance furnished by the United States in connection therewith (not necessarily limited to assistance furnished under the Mutual Security Program) and (b) additional assistance which, had it been available, could have been furnished with great benefit to U.S. foreign policy objectives.

6. For the reasons given in the below-quoted guidance from the Bureau of the Budget, individual items should not at this stage include any allowance for contingencies, but a separate amount for contingencies can, in the discretion of any programming office, be submitted as a special item, together with as complete a rationale and justification therefor as possible. The Bureau's guidance is as follows:

"The current uncertainties existing in the foreign area seem to call for some allowance in the FY 1956 program for items contingent in nature. However, since it rarely happens that all the contingencies materialize, an allowance for each contingency in each geographic area would pyramid the amounts. In view of the flexibility contained in the President's transfer authority and the surplus agricultural programs, the individual items should not include allowances for contingencies which should be provided for instead on an overall basis. This approach to contingencies should provide a more meaningful basis on which to determine minimum feasible amounts."

7. Programs which are dictated by political considerations should be justified as such and not on the basis of military or economic necessities. Guidance from the Bureau of the Budget on this point is as follows:

"Programs have been submitted and justified in the past on the basis that they were required because of economic considerations, but upon examination it became clear the real basis was of a political nature or other special considerations. Where the latter considerations furnish the primary basis for aid, they should be clearly presented in the initial submission."

8. Submissions which cover a large number of different programs, as, for example, those from the Department of Defense and those from FOA regional offices, should contain an evaluation of priorities among such different programs and program components.

III. Definitions and assumptions with respect to specific forms of assistance

For purposes of simplicity it has been assumed in this memorandum that the presentation of the FY 1956 Mutual Security Program to the Budget Bureau and to the Congress would classify all assistance proposed in substantially the same six categories that

were established in the Mutual Security Act of 1954 as finally passed. These categories, all but one of which is discussed and defined below, are the following: (A) military assistance; (B) direct forces support; (C) defense support; (D) development assistance; (E) technical cooperation; and (F) other programs, including those multilateral programs which are not included in other classifications. Program submissions should generally follow and recognize these categories.

The foregoing assumption and instruction require a certain amount of explanation and qualification. The most important thing at this time is not, of course, the classification of assistance in particular categories, but rather the development for each country and area of a program which, when all of its elements are considered together, represents a fully integrated approach to the problem of such country or area and constitutes the best use of total resources available for that purpose. At the same time, it is highly desirable, for purposes of internal analysis, for purposes of comparison with prior years' programs, and for purposes of the Budget Bureau and Congressional presentations, to separate out, wherever this is practicable, (and the case is rare where this is not true), the major types of aid components of the total program. The major aid components which are referred to above and further defined below are generally distinguishable from one another either by the physical nature of the assistance provided (military end-items, for example) and/or by the purposes which the aid is intended to accomplish. However, since the problems of a country or area cannot be neatly compartmentalized, the definitions of the major types of aid cannot always be precise, these definitions sometimes overlap, and frequently we have a choice as to the way in which particular aid should be classified. These factors sometimes present programmers in the non-military area with irritating dilemmas, and the temptation is great to ignore the issue and to submit country programs that are not separated into components or are separated in a routine and meaningless fashion. Unfortunately, the task of Congressional presentation is such that those who determine its final form must have before them raw material from programming offices which is susceptible, with the help of the latter, of being grouped in categories and of being combined in a variety of alternative forms.

One special footnote about "defense support" and "development assistance" is necessary. In countries where the United States is furnishing military assistance (except Latin America), all non-military assistance except direct forces support and technical cooperation will be classified as "defense support" even though such assistance includes aid for purposes of economic development, relief or budgetary support. In all countries where the U.S. is not furnishing

military assistance and in Latin America, all non-military aid except for technical cooperation will be classified as "development assistance". We will not have both a "defense support" program and a "development assistance" program in the same country, and a decision to have the former in lieu of the latter is merely the automatic consequence of the existence of a military aid program in the country, is not an indication of a distinction in program content, and is not intended to preclude the inclusion of assistance primarily designed to further economic development of a kind identical with that which may be included under "development assistance" in a country where no military aid program is in operation.

A. *Military Assistance*

Programs within this classification are designed to provide the military equipment and training which are required by certain friendly countries in order to develop or maintain specific military, para-military or police units at a given level of effectiveness. The policy reason for undertaking any such program derives in each instance from the existence of two facts: (1) the importance of the units involved to the defense of the United States or to the defense, or to the protection against internal subversion, of an area which is important to the security interest of the United States and (2) the inability of the recipient country to create or to support such units adequately without the equipment and training provided. Military assistance programs almost invariably have an exclusively military or directly related security purpose, even though it is lack of economic strength on the part of the recipient country which makes the extension of such assistance necessary.

This classification also includes, but is not limited to, the following programs which, although not falling strictly within the definition above, are closely akin to, and have customarily been treated in conjunction with, military end-item and training programs, the provision of machine tools and other production equipment required for the production of increased military equipment abroad (facilities assistance); contributions to certain international military organizations (SHAPE and the Standing Group of NATO) for their operating and administrative expenses and for the construction or equipping of military facilities (infrastructure); assistance in the development or production for foreign forces of weapons of advanced design.

In developing the FY 1956 program proposals, the Department of Defense should consider the advisability of including, as a part thereof, recommendations for new obligational authority with respect to (a) each of the special categories of assistance referred to in the immediately preceding paragraph; (b) a U.S. contribution to a NATO logistic and supply plan (possibly as a further implemen-

tation of the Bogart Plan);[2] and (c) assistance to support certain essential elements of military defense not heretofore generally considered eligible for military assistance (such as air defense).

The following informal planning figures, as heretofore informally agreed to among staff elements of the Department of Defense, the Bureau of the Budget, the Department of State and FOA, are hereby established for the military assistance program (exclusive of infrastructure) (figures in billions of dollars):

FY	Unexpended at end of FY	Appropriated or requested for FY	Available during FY	Expended during FY
1954	7.0	-	-	-
1955	-	1.1	8.1	3.0
1955	5.1	-	-	-
1956	-	1.6	6.7	2.5
1956	4.2	-	-	-
1957	-	2.5	6.7	2.5
1957	4.2	-	-	-
1958	-	2.6	6.8	2.5
1958	4.3	-	-	-
		7.8		

This table assumes the loss, as a result of the retroactive application of Section 1311 of the Supplemental Appropriation Act of 1955, of $500 million of the 1950-1954 funds. To the extent this assumption is pessimistic the following figures in the table would need to be correspondingly adjusted; unexpended balance at end of FY 1954 (increased); available funds in FY 1955 (increased); new obligational authority required in FY 1956 (decreased); total new obligational authority required FY 1955–1958 (decreased); unexpended balance at end of FY 1955 (increased).

The following further general assumptions will apply in developing the FY 1956 military assistance program, in addition to those which may have heretofore been provided in other documents:

1. It will be U.S. policy to provide on a grant basis (or on liberal credit terms requiring an appropriation to cover them) those end-items which are required in order to maintain forces to which we have heretofore been furnishing, or are now planning to furnish, capital or replacement of equipment at the same level of effective-

[2] Not further identified in Department of State files.

ness as the level to which such capital or replacement equipment was initially designed to raise such forces.

2. Programming should take into account the desirability of replacing obsolescent equipment at the rate necessary to match increments in the level of effectiveness and capabilities of potential enemy forces as a result of modernization, both by increasing the readiness and capabilities of individual units and by securing greater standardization of equipment among units.

3. The offshore procurement program will be continued and every effort will be made to maximize this program to the extent that it will significantly further the establishment and maintenance of a rationale mobilization base in Europe or the Far East, or will materially contribute (in addition to providing quality end-items at acceptable prices) to the attainment of some extremely important political or economic objective abroad. However, it is recognized, and should be assumed, that this program will be at a level significantly lower than in FY 1954. While recognizing the difficulties of meeting this goal, $300 million will be taken as the target for OSP contracts to be placed out of new FY 1956 obligational authority on a worldwide basis.

B. *Direct Forces Support*

Programs within this classification are designed to give the military establishments of certain countries direct support which is additional to the military assistance which these countries are also receiving. These programs provide, or finance the provision of, specific supplies, equipment and services which go directly into the hands of, or otherwise immediately benefit, military forces, but which either (1) are of a kind not ordinarily provided as, or (2) are financed or administered in a manner different from, military assistance.

The reason behind this program is the fact that the recipient country, even with the military equipment and training which it is receiving as military assistance, is unable to develop and maintain the size and kind of forces which are important from the standpoint of U.S. security without further help.

The purpose of this program is a military purpose—the support of military forces—and any economic benefits which may accrue to the recipient country as a result of the program are, however extensive or useful they may be, incidental to, rather than a primary reason for, the program.

C. *Defense Support*

Programs within this classification are designed to support the military efforts of certain countries which are receiving military assistance. Such support involves the provision of supplemental resources which a recipient country requires if it is to carry on a defense program of the size which United States policy regards as necessary. The primary policy reason for defense support programs

is the attainment of military objectives rather than the extension of any economic benefits which may also accrue to the recipient nation. However, where a defense support program is justified in a country under this policy definition, the program will also include, where this can be supported, such other assistance for that country as U.S. interests dictate should be furnished to promote economic development or to maintain economic or political stability.

Defense support differs from direct forces support in the following respect: although both forms of assistance are designed to make possible the creation or maintenance of a certain level of military forces, direct forces support does so by providing, or paying for, goods or services that physically (although sometimes in a different form) reach or benefit the forces involved, whereas defense support contributes to this objective more indirectly through providing resources which either (a) enable the recipient country to maintain a level of defense expenditures or undertake defense activities that would otherwise not be possible or (b) increase the recipient's capacity to do so in the future. The one form of assistance can be traced directly to a soldier who actually uses it or is served by it; the other form has its specific military impact as a country's economy is rendered capable of sustaining the desired enlargement of its defense burden.

Consideration will be given in the case of every defense support program to the extent to which the assistance involved could be supplied on a loan basis without serious detriment to the attainment of U.S. program objectives. Each programming office should be prepared to demonstrate why any segment of its proposed program cannot be provided on terms of repayment (See IV–B below).

For the treatment of defense support programs in relation to regional economic organizations and activities, see the discussion of this subject as it applies to development assistance in D–4 below.

D. *Development Assistance*

This term describes assistance given primarily to promote economic development or otherwise to create or maintain economic or political stability. In most nations for which it is proposed, development assistance will supplement programs of technical cooperation by providing supplies, commodities or funds. Usually this type of assistance is required to make possible, or to accelerate, projects or activities which basic United States interest requires to be undertaken and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried out at the rate required by United States foreign policy. Mutual Security Program funds in FY 1956 for development assistance should be used to help accelerate present rates of economic growth in the underdeveloped countries (and in certain instances certain

European or other developed countries) where United States national security requirements for such growth cannot be met by local and foreign private capital or from financing from the IBRD, Ex-Im Bank or similar sources. Development assistance differs from defense support in that the former is immediately directed toward goals which are not primarily military in character, whereas the latter has as its first aim, and controlling justification, the attainment of military objectives.

The program for development assistance should take into account the following considerations:

1. Development assistance, as a category of funds, will not be applicable in countries where military and defense support programs are proposed. (Exception: Latin America.)
2. Surplus Agricultural Commodities will be supplied in lieu of other dollar commodities where requirements for local currency can be met by local currency which is generated from the sale of such agricultural commodities or, where foreign exchange requirements are being covered, are substituted for by such agricultural import, providing in both instances that normal marketings are protected. (See Sec. IV–A below.)
3. Every consideration should be given to the possibility of programming development assistance on a loan basis except in cases where it can be affirmatively and convincingly demonstrated that for political, economic or other reasons the objectives of such assistance cannot be achieved through extending it on some other basis than a grant.
4. Where this would further the objectives of U.S. aid programs and otherwise be feasible, this form of assistance will be channeled in such a fashion as to encourage regional economic undertakings in conjunction with other U.S. programs. However, in submitting program proposals, any program whose practicability at all, or whose size or general content (as contrasted to its technique, form or method of administration and extension, or its ultimate effectiveness), will be largely unaffected by whether it is provided on a bilateral basis or through a regional economic institution or project, should be submitted as part of a balanced country program. Only those programs or projects which are dependent for their practicality at all upon the establishment of a regional organizaton, or whose size and content would be radically affected if a regional organization were established, should be submitted separately not as a part of regular bilateral country programs. Any submission of the latter type should clearly set out the assumptions upon which it is based.

E. *Technical Cooperation*

Technical cooperation programs may be defined as programs for the sharing of our knowledge, experience, techniques and skills with the peoples of the less developed areas of the world for the purpose of helping them to further their economic development and increase their standard of living. These programs emphasize,

and consist largely of, advice, teaching, training and the exchange of information, and they do not usually include the provision of supplies and equipment beyond that which is required for effective teaching and demonstration purposes. Moreover, except for these last mentioned purposes, they do not supply the capital which may often, if not always, be indispensable to the conversion of the knowledge, skills, techniques and experience which are thus provided to economic wealth, improved standards of living and other tangible benefits among the peoples of the recipient countries. The definition of the limits of the program for FY 1956 should be considered to be the same as the definition in Title III of the Mutual Security Act of 1954, and interpretations which have been, or may hereafter be, issued with respect to the meaning and content of the term "technical cooperation" under the Mutual Security Act of 1954 should be used as a guide in determining the general scope of activities and the forms of aid which are intended for coverage by this category in the FY 1956 submission. However, in cases where the provisions of the Mutual Security Act of 1954, as so interpreted, technically exclude or prohibit activities which (i) a programming office believes should be undertaken and (ii) are closely akin to, or of the same broad general nature as, activities which are permitted as technical cooperation under the present law, it may submit, as part of its technical cooperation submission (rather than under some other head), but specifically identified and justified, proposals which include such now excluded or prohibited activities.

The following factors should be considered in developing a program for FY 1956:

1. Contracts with universities and other private and semiprivate institutions will continue to be an important method of implementing programs.

2. In the development of country programs, there should, in general, be greater selectivity than in the past in choosing projects and activities for inclusion in such programs, less dispersion of emphasis among a large number of different fields of activity and many scattered projects within fields of activity, and more concentration on the solution of a few carefully chosen, high priority problems important to a country's development.

3. Programs should indicate a phase-out of U.S. support of projects when host countries are capable of assuming responsibility for continuing them, and generally follow guidance on cost-sharing laid out in CA-102 of June 20, 1954.[3] In general, also, the probable capacity of a country to assume continuing responsibility for a project a number of years hence should be a factor in determining whether the institution of such a project at this time is wise and timely.

[3] Not printed.

4. In countries, such as Korea and Indochina, where the development and submission of all elements of a country program as a single entity (rather than in the form of separate components) appears advisable, technician costs, training costs and similar technical cooperation expenses should nevertheless be broken out for separate analysis so that subsequently, if Congressional presentation factors so dictate, these phases of the activities proposed for a country can be embodied in the technical cooperation program. Except in the case of Korea and Indochina, this procedure will not be followed without specific advance approval and a full justification.

5. Consideration should be given to the possibility in those countries (including European countries in which technical exchange activities have been conducted) where (a) foreign exchange resources permit and/or (b) inclusion in the normal type of U.S. technical cooperation program is not desirable or possible, of furnishing some or all of any technical assistance for such country on a reimbursable basis under which the U.S. government, as in the case of reimbursable military aid, would provide, or arrange for, the assistance, but would be reimbursed for its out-of-pocket costs in doing so.

Technical exchange programs for Europe will be developed within the general context of the above definition, limits and criteria, as well as within the special framework set forth in V-A-1-f below.

IV. Forms of Aid

A. *Use of Agricultural Surpluses*

The following assumptions and instructions with respect to agricultural surpluses will be taken into account in developing the FY 1956 Mutual Security Program:

1. As in the FY 1955 Program, the agricultural commodity component of these imports financed with MSP funds will be maximized as long as this does not interfere with the attainment of MSP objectives. It will be assumed that such agricultural imports will not, under the applicable legislation, be required to be in excess of the usual marketings of the United States and friendly countries.

2. It will be assumed that in FY 1956 Title II of the Agricultural Trade, Development and Assistance Act of 1954 (P.L. 480), or any modification thereof, will, to the same extent as in FY 1955, provide resources to meet those requirements for U.S. assistance to other countries in the form of agricultural commodities which result from famines, floods or other natural disasters.

3. Where any choice exists between financing programs under either the Mutual Security Program or financing them under the Agricultural Trade Development and Assistance Act, the latter will be used.

4. It should not be assumed that the Agricultural Trade Development and Assistance Act represents any solution for countries having balance of payments difficulties. P.L. 480 is aimed at increasing consumption of United States surplus agricultural com-

modities above the level that would otherwise occur, without, of course, disrupting world prices.

5. In programming the FY 1956 Mutual Security Program, account will be taken of those local currencies, if any, which, at the time programs are finally developed, are likely to become available in FY 1956, without dollar reimbursement, for use in the Mutual Security Programs as a result of subsections 104(c), (d), (e) and (g) of the Agricultural Trade Development and Assistance Act.

B. *Loans*

Any portions of the requirements for FY 1956 assistance which can be met on a loan basis without sacrifice of program objectives will be furnished on a loan, rather than a grant basis. In considering whether and when loans or grants should be used and, if the former, on what terms, the following general criteria should govern:

1. No assistance will be extended out of Mutual Security Program funds to cover projects or activities which the public lending institutions could finance *and* would be prepared to finance, or which can, and there is real prospect will, be met from private capital sources.

2. Assistance on terms of repayment will always be on the most favorable business terms consistent with the full accomplishment, without compromise, of the political, economic aid, where appropriate military objectives for which the assistance is intended.

3. No assistance should be extended on terms of repayment when this would have the effect of seriously or directly impairing a country's capacity to borrow from, or to repay previous loans to, the IBRD, the Ex-Im Bank, or private lending institutions.

4. All programs of technical cooperation and all of the other following programs will be handled on a grant basis and will not normally be considered as eligible for assistance on any basis of repayment: ICEM; UNRWA; UNICEF; NATO civilian and military contributions; escapees; MDAC; Ocean Freight; administration; infrastructure; UNTA; OAS; UNKRA; relief operations, such as Operation Exodus.

5. The bilateral Korean aid program will, because of its nature and because of political considerations, be handled on a grant basis, but O/FE, together with appropriate State Department officers, should consider whether, and if so to what extent and on what terms, this program could be placed on a repayment basis.

6. While recognizing (i) that the question of whether particular assistance should be extended in the form of a loan or a grant depends not only on the income-producing capacity of specific projects that may be benefited thereby but also on the status and capacity of the economy of the recipient country projected over the period of the loan, and (ii) that considerations of practical administration may generally, or in individual cases, make it advisable to extend any loan as a general loan to a country, without specifically requiring that it be applied to a particular undertaking or undertakings, nevertheless, for purposes of presentation to the Bureau of the Budget and Congress, programmers should, where possible, and

consistent with other assumptions here listed, apply or relate assistance which they propose to extend on a repayment basis to projects which have income earning features rather than to projects that are not in themselves productive in an income producing sense—viz., hospitals, schools, etc.

7. It is immaterial, from the standpoint of meeting the minimum targets, whether assistance which is given is given in the form of funds appropriated or in the form of local currency generated from the sale of MSP surplus commodities. It should be noted, however, without going into detail here, that the choice may make a good deal of practical difference in achieving program objectives.

8. Unless and until the NAC approves a different policy, it should be assumed for FY 1956 programming purposes (but for no other purpose) that the terms under which, and the circumstances under which, loans might be extended out of FY 1956 Mutual Security Program funds would be of the following general character:

a. Loans shall be available on the same terms to all borrowers. The loans shall be for 50 years with no repayments of capital, payments of interest, or accrual of interest during the first three years. Starting in the middle of the fourth year there shall be equal semi-annual combined payments of interest repayments of capital, with a clear distinction between interest payments and capital repayments.

b. The interest rate shall be 2½% if repayment is to be in dollars, 3½% if repayment is to be in local currency. At any time during the life of the loan agreement the borrower shall have the right to transfer irrevocably from the 3½% local currency basis of repayment to the 2½% dollar basis of repayment.

c. If repayment is to be in local currency the obligation to repay shall be denominated in dollars with provision for payment in the local currency equivalent of those dollars at the appropriate exchange rate current at the time of repayment. Each borrowing government shall be required to agree that local currency paid to the U.S. under a loan agreement shall be valid at a minimum for any expenditures of the U.S. Government in the monetary area of the borrowing government.

d. The U.S. shall agree to take into consideration the economic position of the borrowing country in any contemplated use of the local currency repaid by a borrowing country.

e. Loan agreements shall allow the borrower the option of prepayment.

f. Loan agreements shall take note of the possibility that the U.S. may wish at a later date to suggest renegotiation of the agreements to provide for direct repayment in strategic materials or other valuable considerations, and each agreement shall generally provide that, if, at any time so long as the U.S. Government is the holder of the obligations under the agreement, the parties to the agreement determine that it would be in their common interests, they may by mutual agreement modify the agreement.

g. Loan agreements shall allow the U.S. the option of converting the dollar obligations it holds under the loan agree-

ments into negotiable bonds in convenient denominations for sales to investors.

9. Programmers should also consider, and include in their submission, an indication of the extent to which assistance proposed by them for extension on a loan basis could, consistent with the achievement of program objectives and the general criteria in 1 to 3 above, still be extended on a loan basis if the terms of such loans were to be far less liberal than those set forth in 8 above.

10. All program submissions, including those for military assistance, will indicate the extent to which it is estimated that the assistance proposed might, consistent with 1 through 8 above, be extended on a repayments basis. In the case of military assistance, this would include the question of what military equipment might, in lieu of being furnished as a gift, be sold to recipient countries on credit terms which are more liberal than those now permitted under Section 106 of the Mutual Security Act of 1954—credit terms which might, as an extreme, be as liberal as those under 8 above.

V. Regional and Country Guidelines

There are set forth below certain regional and country guidelines and assumptions. In reviewing these, it will be noted that there are many countries for which no assumptions or guidelines of any kind are given. Such omissions have no significance whatsoever in terms of whether programs should or should not be prepared for any particular country. On the contrary, any such omission simply means that no special guidance or assumptions, beyond those contained in NSC and other approved policy papers, presently appear to be necessary for the purpose of determining whether, and if so, in what amount and form, assistance should be proposed for a country so omitted. Similarly, the inclusion of assumptions or guidelines for a country is not, except where otherwise specifically so stated, intended to indicate a decision that such country will in fact receive aid. In either event, programmers are urged to refer to the latest NSC guidance on any country or area for which they have programming responsibility.

A. *Europe*

1. The following specific assumptions apply to the European region as a whole.

a. *EDC*—The development of a substitute solution to EDC will not change foreign aid requirements for assistance in any countries where such assistance would otherwise be justified. It will be assumed that any substitute solution will be such that the limitations of the "Richards amendment" will be removed.

b. *European defense expenditures*—In general the percentage of gross national product devoted by NATO countries for defense purposes will slightly decline. On the other hand, there is no reason to believe that the NATO "new approach" studies will lead to adjustments in force levels or force composition which will justify any re-

duction in defense budgets. The percentage of gross national product allocated for military expenditures will also decrease slightly in Yugoslavia, but it will increase slightly in Spain, and increase substantially in Germany.

c. *NATO Logistic Organization*—A common NATO Logistic System will be agreed upon and the U.S. will participate in the financing of the facilities required.

d. *Receipts from OSP*—European OSP receipts will increase from around $500 million in FY 1954 to about $850 million in FY 1955 and then recede slightly in FY 1956 to approximately $825 million. (The foregoing assumption will apply only until such time as the Department of Defense, pursuant to II(B)(3) above, provides more current and accurate estimates.)

e. *Convertibility*—The movement toward convertibility will not require additional U.S. financial support either to individual countries or to a central fund or reserve. (If, on the contrary, moves toward convertibility do require additional U.S. assistance, then a separate requirement and justification will have to be made at that time.)

f. *Technical exchange*—The European Technical Exchange Program will be phased out in FY 1956 except in so far as it can be justified in one of the following categories:

(1) As a component of an economic program in a country where an economic program is proposed for FY 1956 (as in the case of Spain in FY 1955);

(2) As a contribution to the European Productivity Agency if it can be affirmatively demonstrated that such a contribution is necessary to, and will materially further the activities of this institution in a manner consistent with U.S. objectives; and

(3) As required to finance institutional contracts.

The FY 1956 program may, however, also include amounts necessary to cover any pipeline costs that cannot be met through anticipated deobligations of prior years' funds. Moreover, because of differences of view as to the desirability and form of any technical exchange program in Europe, the Regional Office may, in its discretion, include specific proposals representing exceptions to the narrow guidelines set forth above. Consideration should also be given to the possibility of developing arrangements for the extension of technical exchange on a reimbursable basis. (See III-E-5 above.)

g. *Tourism*—Dollar expenditures for tourism in Europe will increase moderately.

h. *War Reserve Levels*—NATO plans are likely to place greater emphasis on stockpiles and operational reserves than previously, and present NATO goals with respect to these may be substantially raised.

2. *Country Guidelines*

a. *Spain*—The $465 million level of aid referred to in U.S. agreements with Spain will not be considered as necessarily a binding

and permanent ceiling on the total aid which will be furnished to Spain provided that the attainment of approved U.S. policy objectives in Spain appears to justify amounts in excess thereof. Similarly, the $115 million heretofore commonly considered to be the economic aid component of the above total will not be considered as a necessarily binding limitation on the cumulative total of economic aid to Spain. On the contrary, specific consideration should be given to the question of whether, in order to accomplish its strategic objectives, the United States will find it necessary to participate financially in a limited number of transportation and communication projects.

b. *Berlin*—A limited economic aid program should be continued for West Berlin, such a program to be designed to bolster the morale and the economy of the city and to reduce unemployment. The Department of State should immediately provide FOA with more specific guidance on the size and nature of the program which, from a political standpoint, are required for such purpose.

c. *Yugoslavia*—It will be U.S. policy to provide such further economic assistance to Yugoslavia as may be necessary to maintain the current defense effort without weakening political stability in the country, including, if necessary to this end, assistance designed to permit a moderate increase in consumption levels.

d. *Italy*—A limited economic assistance program for FY 1956 for Italy should be submitted *if* such a program can make a major contribution to any or all of the following:

(1) Induce the Italian Government to adopt measures striking at the organizational basis of Communist power undermining Communist financial and political strength.

(2) Induce Italian groups, particularly Italian employees and free labor movements, to combat Communism vigorously.

(3) Induce the Italian Government and private Italian groups to aid the growth of the democratic labor federations in order to weaken the Communist dominated federation.

(4) Improve the level of economic activity in southern Italy and reduce unemployment generally.

e. *Western Germany*—It will be assumed that any further military assistance which may be required by Germany over and above that programmed in Fiscal Years 1950–1955 will be on a reimbursable basis, and that no grant assistance will be included for Germany in the FY 1956 program. However, against the possibility that subsequent developments or decisions will modify this assumption, the Department of Defense, as a separate submission, should indicate the value of military equipment (i) whose procurement will require the use of foreign exchange (i.e., cannot be manufactured within Germany in time) and (ii) which should be financed in FY 1956 if the time-phased requirements for such equipment are to be met for a German build-up which commences on January 1, 1955, proceeds thereafter at the rate heretofore assumed for such build-up, and has as its force targets those heretofore planned in connection with EDC.

3. *Planning Figure for European Region*

The new obligational authority planning figure for all forms of non-military aid for Europe for fiscal year 1956 is $125 million.

B. *The Near East, Africa and South Asia*

1. The following specific assumptions apply to this area as a whole:

a. *Regional defense*—There will be a continued development of regional defense arrangements in this area based generally upon the Turkish-Pakistan alliance and a gradually increasing interest on the part of the Arab States in measures for regional defense. It is also a U.S. objective to associate Iran with such regional defense arrangements when this proves practicable and to provide military support to Iran consistent with the attainment of this purpose.

b. *Arab-Israeli relations*—Arab-Israeli relations will continue to be tense, rendering difficult the development of unified economic plans for this area.

c. *Assistance for economic development*—It will be the policy of the United States to provide assistance in the amount and form required whenever such assistance in this area will materially accelerate rates of economic growth significantly strengthening the security of the area, or contribute in an important way to the political settlement of major outstanding issues, such as those affecting the Palestine refugees or those involving Arab-Israeli differences.

d. *Technical assistance*—The Technical Cooperation Program should be continued at approximately the general level requested of Congress for FY 1955, with added provision for the commencement of technical cooperation activities in any new country where such activities seem probable in FY 1956. However, moderate increases in the regular program are not to be excluded if a convincing demonstration of (i) additional potentialities for constructive work and (ii) a capacity (in terms of technicians, etc.) to meet such added needs can be provided. The Department of State should immediately provide FOA with guidance as to which new countries, if any, in this region are likely to request, and become eligible for, technical cooperation in FY 1956.

2. *Country Guidelines*

a. *Iran*—Any further program of economic assistance should be related to any expanded military force goals that the U.S. Government may determine to support and/or, on a project basis, to those continuing requirements, if any, for external assistance for economic development which cannot, on the assumption that oil production has been resumed by December 31, 1954, be financed through oil revenues, private investment or loans from the public lending institutions. Similarly, the technical cooperation program should, unless strong justification to the contrary can be shown, be further reduced to a level comparable with other countries, now that the necessity for a rapid impact program has passed. Moreover, Iran should be expected to meet normal requirements for cost-sharing.

b. *Palestine Refugees*—A program for relief of Palestine refugees should be submitted on the assumption that it will continue to be administered through UNRWA. Funds for refugee resettlement should also be considered and, if considered necessary, included as

a separate component of the submission. This program should be closely related to the development assistance justified for the Arab States and Israel in connection with Jordan Valley development, but be otherwise separable so as to permit independent justification.

c. *Libya*—Development assistance should only be provided if substantial progress is made on using existing assistance (development assistance; Air Force funds; etc.).

d. *Africa*—Unless strong justification to the contrary can be given, aid for economic development in the Dependent Overseas Territories (other than technical cooperation) should be considered only in connection with P.L. 480.

e. *India*—A program for United States aid on approximately the level requested of Congress for FY 1955 should be submitted for FY 1956 if progress in expenditure for the 5-Year Plan meets high projections, resulting in foreign exchange and local currency shortages. The technical assistance component should be maximized, and development assistance should, to the extent feasible, be extended in the form of agricultural commodities and on a loan basis.

f. *Pakistan*—Any economic assistance program submitted should fall in the defense support category and bear a direct relationship to Pakistan defense capacity, to its general economic development, and to current special economic and political problems in Pakistan as they are developed in connection with a consideration of the Heinz Report, present and prospective discussions with top Pakistani officials, and any subsequent NSC determinations.

g. *Turkey*—Any economic aid program for Turkey for FY 1956 should permit continued support for the maintenance of the present level of armed forces, allowing for increased levels of equipment. The aid program should also allow for the continuation of the heavy investment program. The Turkish program should be especially carefully examined to ascertain whether a large portion thereof could be placed on a loan basis. It will be assumed in connection with the MDAP program for Turkey that the United States will continue to fulfill the commitments made to Turkey on military assistance during the recent visit of the Turkish Prime Minister.

h. *Greece*—It will be assumed that even if there is no economic justification for a further program in FY 1956, political factors in connection with maintenance of forces may make limited assistance advisable. The Department of State should promptly furnish FOA its initial views on such political factors. In the event that any assistance is to be proposed, it should, if this proves practical, be programmed as direct forces support.

3. *Planning Figure for NEA Region*

The new obligational authority planning figure for all forms of non-military aid for the NEA region for Fiscal Year 1956 is $375 million, exclusive of any requirements for Palestine Refugees.

C. *The Far East*

1. *Regional Guidelines*

The following specific assumptions apply to the area as a whole:

a. As the most likely area for further Communist efforts at expansion, the Far East will continue to be the object of intense United States effort to prevent further losses and to stabilize the political situation through a combination of economic and military programs.

b. Plans for increased military strength growing out of SEATO arrangements will require some expansion (exclusive of Indochina) of end-item and defense support programs.

c. An economic grouping of free Asian states, possibly to include those of South Asia and Japan, may merit the support, including financial support, of the United States. This support may be in terms of loans through a regional bank, as direct development assistance on a loan or grant basis, or on some other basis. In particular, programmers should consider, and discuss with other offices, the wisdom of including or not including, and if so, in what form and amount, a proposal for funds to cover the possibility of a loan to assist in the establishment of an Asian Regional economic structure. (See III–D–4 above.)

d. Technical cooperation programs will continue at approximately the levels requested of Congress in FY 1956, but with moderate increases allowable where strong justification therefor can be given and with added provision to cover, if this otherwise appears desirable, a program in Japan.

2. *Country Guidelines*

a. *Indonesia*—The FY 1956 program should be designed to strengthen internal security and political stability. Levels of aid proposed should reflect careful judgment as to the likelihood of political acceptance and the absorptive capacity of the Indonesian economy. Consideration might be given to the possibility of two alternative levels of aid, the higher dependent upon political developments, including participation in regional arrangements noted in *1C* above. (See also III–D–4 above.)

b. *Thailand*—The program submitted should be based upon a stated force goal assumption. A program of economic development, if submitted, should be governed in part by the absorptive capacity of the Thai economy. In general it will be U.S. policy to support an increase in force goals (as supplied by the Department of Defense) and intensify economic development, and to provide such assistance as may be necessary for such purpose.

c. *Philippines*—In preparation of the FY 1956 defense support program for the Philippines, assumptions should be made as to the expanded force goals (as supplied by the Department of Defense) which will be supported by MDAP, Japanese reparations, trade factors affecting balance of payments and the absorptive capacity of the economy for capital investment from both private and public sources. In general, it will be U.S. policy to support an increase in force goals and intensify economic development in the Philippines and to provide such assistance as may be necessary for such purpose.

d. *Korea*—Continued assistance on a major scale will be necessary to finance reconstruction, support of ROK forces, contributions to UNKRA and, if necessary, direct relief. It will be assumed

that Korea will not be a participant in a regional economic program. All assistance for Korea in Fiscal Year 1955, military assistance included, will be financed under the Mutual Defense Assistance Program.

e. *Formosa*—Barring (i) large-scale, overt hostilities requiring a much greater Free Chinese defense effort or (ii) changes in the missions, levels or composition of Formosan forces of a character imposing significantly larger burdens on the Formosan economy, all forms of economic aid in FY 1956 will not be in excess of the approximate level of aid requested of Congress for Fiscal Year 1955.

f. *Japan*—Facing a rapidly worsening economic situation, some part of which may perhaps be dealt with in FY 1955 under P.L. 480, Japan may require substantial external non-military assistance in FY 1956, but such assistance, if required, may take any of a variety of forms, including aid under P.L. 480, triangular arrangements, etc. In developing any program for such assistance it can be assumed that new OSP contracts placed in Japan in FY 1956 will be at least approximately $50 million. It will also be assumed, in developing any MDAP program for Japan, that there may be some small increases in FY 1956 and 1957 in the amount of resources devoted by the Japanese Government to its military forces (above the reduced amount so devoted this year), but that there will not, by Fiscal Year 1957, in the absence of substantial defense support, be any substantial increase in force levels above those currently approved by the Japanese Government.

g. *Indochina*—It will be assumed that French forces will continue to provide an important element of defense for the three Associated States during Fiscal Year 1956. It will also be assumed that the Associated States, and particularly Vietnam, will be unable to devote more, and probably will be able to devote only substantially less, resources to defense than during Fiscal Year 1954. It will further be assumed that U.S. fiscal considerations will in no wise limit the forms or amounts of assistance which will be extended in or for Indochina in FY 1956 where the extension of such assistance alone, or in conjunction with other measures, offers any reasonable prospect of furthering U.S. objectives of maintaining Laos, Cambodia, and Southern Vietnam as free nations and of winning the 1956 elections. In developing any direct forces component of the program for this area, the FOA Regional Director for the Far East will work with the FOA Regional Director for Europe and the latter will, under the coordination of the former, be responsible for preparing any portion of the direct forces component relating to assistance for the support of French Union Forces. The two regional directors should work out with one another an exact division of work responsibility and work load in this regard.

3. *Planning Figures for Far East*

In view of current uncertainties, no new obligational authority planning figure for any or all forms of non-military aid for the Far Eastern region is given for Fiscal Year 1956.

D. *Latin America*

1. *Regional Guidelines*

a. *Economic development*—In furtherance of United States objectives to promote orderly economic development in Latin America, and subject to the results of the Rio Conference, the United States should be prepared to assure the financing of all sound economic projects either through private capital, IBRD or Ex-Im loans in that order of preference, or, failing these sources, through development assistance, exclusively, unless an extraordinary contrary justification can be adduced, in the form of loans. (See IV-B above.)

b. *Technical cooperation*—Aid levels may provide for moderate increases proportional to the expanding economic development programmed by the Latin American countries.

c. *Military assistance*—The program will have essentially the same objectives as in Fiscal Year 1955.

d. *Other aid*—Other assistance, on a loan and/or a grant basis, might be authorized to meet any emergency economic situation in Latin America which was as grave as that which confronted Bolivia in Fiscal Year 1954.

2. *Planning Figure for Latin America*

The new obligational authority planning figure for all forms of non-military aid for the Latin American area for Fiscal Year 1956 is $50 million.

HAROLD E. STASSEN

101.21 NIS/10-454

Memorandum by the Special Assistant for Regional Programs of the Bureau of Far Eastern Affairs (Parelman) to the Assistant Secretary of State for Far Eastern Affairs (Robertson)

SECRET [WASHINGTON,] October 4, 1954.

Subject: NSC 5434, "Procedure for Periodic NSC Review of Military Assistance Program."

Attached is a copy of NSC #5434 [1] which recommends procedures for a periodic NSC review of the broad aspects of the military assistance programs. This review will include major policy considerations relating to force levels, priorities, and allocations of end-items and production capabilities included in all uncompleted military assistance programs. It will be conducted in the light of U.S. security objectives, strategic concepts and other relevant conditions for the express purpose of obtaining the best possible balance in terms of U.S. security.

The present semi-annual Mutual Security status report will be revised to show the status of military assistance and supporting

[1] Not printed; a copy of this six-page paper, dated Sept. 28, 1954, but with pages 1-5 revised as of Oct. 1, 1954, is in the S/S-NSC files, lot 63 D 351, NSC 5434 Series. For text of NSC 5434/1, Oct. 18, 1954, see p. 786.

programs by countries and areas in relation to existing governmental policies, commitments and program objectives.

Mr. Nolting was given the assignment of preparing a briefing memorandum for the Secretary on this matter.

In my opinion the procedure called for in the NSC paper is long overdue and will be most valuable to the State Department in keeping posted on developments in this facet of U.S. foreign relations. I recommend that FE enthusiastically support both the proposed procedure and the overall objectives of the NSC paper.

I have cleared the Nolting briefing paper [2] on behalf of FE, subject to any modification which you may wish to make.

[2] *Infra.*

S/S-NSC files, lot 63 D 351, "NSC 5434"

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State [1]

SECRET WASHINGTON, October 4, 1954.

Subject: NSC Agenda Item "Procedures for Periodic NSC Review of Military Assistance Program".[2]

Discussion

The subject paper establishes procedures designed to gear in more closely military assistance programs and related mutual security programs to policies established by the National Security Council and the President.

Two steps are proposed: (1) modification of the semi-annual NSC Status Report on the Mutual Security Program to provide understandable summaries of the progress toward the creation of armed strength in the various areas and countries which receive our aid; and (2) establishment of a high-level interdepartmental committee (State, Defense, FOA; with Treasury, ODM and the Budget Bureau as observers) to review the semi-annual Status Report and to flag important issues to the attention of the National Security Council.

There are two splits in the paper. FOA suggests that FOA should act as chairman of the interdepartmental committee in view of Governor Stassen's role as coordinator under the statute. The feel-

[1] Concurred in by the Policy Planning Staff, the office of the Deputy Under Secretary of State, and the Bureaus of European, Far Eastern, Inter-American, and Near Eastern, South Asian, and African Affairs. Prepared in connection with the scheduled discussion of the subject at the 216th meeting of the National Security Council on Oct. 6, 1954. The NSC deferred discussion until its next meeting on Oct. 14. For the memorandum of discussion at the Oct. 14 meeting covering NSC 5434, see *infra.*

[2] NSC 5434; see the memorandum by Parelman, *supra.*

ing of the other members of the Planning Board is that State should chair the committee. The second split is important. It involves the question of whether the committee can concern itself with priorities between international and national programs, the allocation of end-items from current production, and the development of the mobilization base and levels of production at home and abroad. Since these are the root factors which really determine the rate of buildup abroad, it is important that they be included in the frame of reference of the committee if it is to discharge its responsibility. Defense objects on grounds that the question of allocation and levels of production is strictly a Defense Department matter.

Recommendation

It is recommended that you strongly support the objective of this paper and the proposed procedure. It is further recommended that you support the position that the State Department should chair the committee in view of the overall foreign policy considerations involved, and that you support inclusion of the bracketed portions on pages 4 and 5 as essential to the committee in carrying out the objectives of the paper.

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 217th Meeting of the National Security Council on Thursday, October 14, 1954 [1]

TOP SECRET

Present at the 217th Council meeting were the Acting Secretary of State, presiding; the Acting Secretary of Defense; the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Director, Bureau of the Budget; Assistant Secretary Anderson for the Secretary of Commerce (Item 4); Assistant Secretary of Defense Hensel (Item 2); the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Robert Cutler, Special Assistant to the President; Robert R. Bowie, Department of State; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

Following is a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of agenda item 1, "Significant World Developments Affecting U.S. Security."]

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[1] This memorandum was drawn up by Deputy Executive Secretary of the NSC Gleason on Oct. 15.

2. Procedures for Periodic NSC Review of Military Assistance Program (Memo for NSC from Acting Executive Secretary, subject: "Foreign Military Assistance", dated August 30, 1954;[2] NSC 5434;[3] NSC Actions Nos. 1029-c and 1210[4])

After briefing the Council on the background of the problem and describing briefly the proposed review mechanism, Mr. Cutler summarized or read the key paragraphs in the Planning Board's report.[5] He then turned back and identified and explained the several splits in point of view, noting that Governor Stassen had already withdrawn the FOA position that the chairmanship of the proposed special committee should go to FOA.

At the conclusion of Mr. Cutler's opening remarks, Secretary Humphrey inquired whether the proposed special committee at the Assistant Secretary level was expected to present the Council with recommendations and decisions, or merely to submit an informational report. Mr. Cutler explained that the special committee was merely to present a photograph of the existing situation at the time with regard to foreign military assistance programs. It would be the function of the Planning Board to make recommendations to the Council on the basis of the special committee's report. Mr. Cutler also emphasized that the special committee would have no duties involving the supervision of the day-to-day operations with respect to the various military assistance programs, which operations would be conducted, as in the past, by the Department of Defense.

Secretary Humphrey said that in this case he could not understand why the Department of State, FOA, and ODM contended that the special committee should study allocations, priorities and requirements as between foreign programs and domestic military programs. The special committee should confine itself strictly to the field of foreign military assistance programs.

Acting Secretary Talbott said that this was emphatically the view of the Department of Defense. Admiral Radford added that the Joint Chiefs of Staff had no particular objection to the arrangements proposed in the present report, but it was his own personal view that if the National Security Council thought it desirable to have a semi-annual review of all of our military assistance pro-

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[2] See footnote 1, p. 740.

[3] Not printed. (S/S-NSC files, lot 63 D 351, NSC 5434 Series)

[4] NSC Action No. 1029-c is quoted in the memorandum by Cutler of Aug. 30, 1954, p. 740. NSC Action No. 1210 was taken at the 212th meeting of the NSC on Sept. 2, 1954, and simply noted Presidential approval of the recommendations contained in paragraphs 7 and 8 of the Cutler memorandum of Aug. 30, 1954. A copy of NSC Action No. 1210 is in the S/S-NSC files, lot 66 D 95, "Record of Actions by the NSC, 1954".

[5] The "Planning Board report" under reference was NSC 5434 of Sept. 28, 1954.

grams, the Defense Department was in the best position to present such a review. After all, continued Admiral Radford, the Defense Department administered these foreign assistance programs as nearly as possible in accordance with the broad guidance of National Security Council policies. The difficulties which had arisen were not the result of ineffective administration by the Defense Department, but were rather a reflection of the fact that our national security policies don't always work out as we wished them to. For all these reasons Admiral Radford personally doubted the value of the proposed new mechanism. There were just too many details for such a special committee to get involved with.

Mr. Cutler replied that it would not be the purpose of the proposed special committee to get into the details of administering the foreign military assistance programs. If it were, he would agree with Admiral Radford's views. Mr. Cutler again proceeded to explain the function of the special committee as conceived by the NSC Planning Board.

Governor Stassen insisted that the issues which were implicit in a review of foreign military assistance comprised the whole range of United States security policies—foreign and domestic aspects as well as military aspects. Hence the broad membership of the proposed high-level committee would make a valuable contribution. After all, he continued, this problem raised issues not only between various executive departments, but also within individual departments. Moreover, there were occasions when there was a direct conflict between the requirements for the U.S. military establishment and the requirements for assistance to friendly foreign nations. There must be a forum in which such a conflict could be explored in order to provide the President with the basis for a solution.

Both Secretary Humphrey and Admiral Radford indicated their firm belief that there would be no great difficulty in getting such issues before the President for his decision. Secretary Humphrey added that this task should not be assigned to any special committee, but should instead be decided by the National Security Council itself. Any other solution was tantamount to interfering with the prerogatives and responsibilities of the Department of Defense.

Governor Stassen cited the recent case of the alleged shortage of 105 mm. Howitzers, to illustrate the need for a special committee. Acting Secretary Talbott, however, insisted that there was no need to create any special committee in order to solve the problem cited by Governor Stassen. Secretary Humphrey reiterated his firm conviction that if it were created, the new special committee must not in any circumstances be permitted to interfere with the responsibilities of the Department of Defense for the day-to-day implementa-

tion of the foreign military assistance programs. Any balancing of foreign and domestic requirements for military end items and the like should only be exercised by the National Security Council. It was a waste of time to assign this function to any special committee. If the Defense Department proved incompetent in executing its responsibilities, the thing to do was to get a new team to run the Defense Department efficiently.

Dr. Flemming said he would like to remind the Council of the basic objective behind the new proposal. This was, in effect, to get a significant staff job accomplished in order to assist the Planning Board and the National Security Council to carry out their responsibilities. While he had not personally discussed this paper with anyone, Dr. Flemming said he very much doubted the need for any special committee as a means of getting a staff job done. If the Planning Board was unable to do this job with its own resources, it might be well to seek the assistance of some individual, such as Mr. Robert Sprague, to look into the problem. Mr. Cutler replied that of course the Planning Board could call individually on such experts as Mr. Hensel in Defense, Mr. Nolting in State, and Mr. Ohly in FOA, in order to review foreign military assistance and prepare recommendations for the Council. He had believed, however, that rather than resorting to the assistance of individuals, these experts should be formed into a committee as likely to provide a more orderly, effective, and dignified procedure.

Secretary Humphrey said that he had no objection to the creation of a special committee to make a report of the existing situation, as long as this committee did not interfere with the functions of the Defense Department. Dr. Flemming, however, counseled putting the responsibility directly on the Planning Board, with the expectation that the Planning Board would decide how best to accomplish the task.

Mr. Cutler then called attention to the possibility noted in paragraph 3, that an "Interdepartmental Mutual Security Committee" might be set up. He asked the Director of the Budget if such a committee was actually going to be created. Mr. Hughes replied in the negative, and went on to state his agreement with the general position taken by Dr. Flemming. Secretary Hoover said that the State Department felt that it was absolutely essential, from the point of view of our foreign policy, to have a semi-annual review of all the commitments made by the United States to provide military assistance to friendly powers. It was also essential to note the changes which occurred from time to time in these commitments. Accordingly, the Department of State was convinced of the great need for the creation of such a special committee as was called for by the present report. On the other hand, said Secretary Hoover, the State

Department was not contemplating that the committee would in any way interfere with the normal duties of the Department of Defense.

As a result of this discussion the Council agreed to strike out the last three sentences in paragraph 3 of the report, after which Mr. Cutler pointed out that the remaining big issue was whether the special committee, in making its report, should confine its scrutiny strictly to the programs for foreign military assistance or whether, in so doing, the committee should also have in mind the over-all relationship between domestic military requirements and foreign military requirements. State, FOA, and ODM favored the over-all look by the special committee; the other agencies and departments thought that the special committee should confine itself to a scrutiny of the foreign field alone.

Dr. Flemming commented that if you were going to have such a special committee (which he still believed to be unnecessary), the special committee should most certainly take the over-all look, though this did not mean that it should have any voice in the day-to-day operations of the Defense Department, as Secretary Humphrey and Admiral Radford seemed to fear.

Mr. Cutler then stated his opinion that the Council discussion revealed a clear split of views as between the narrow and the broad scope for the special committee's review. After summing up the two different points of view, Mr. Cutler suggested two possible solutions. One was to put this split to the President with a request that he make the decision, which proposal, said Mr. Cutler, put a heavy burden on the President. Or, alternatively, the Council might agree to delete all references in the report to the special committee, with the clear and explicit understanding that the Planning Board was authorized to create some such committee to assist it in identifying and flagging issues respecting foreign military assistance programs, on the basis of which the Planning Board could prepare recommendations for Council consideration.

Secretary Humphrey read paragraph 4-a, which described the proposed functions of the special committee, and said that he was at a loss to understand how anybody could interpret this paragraph as anything but authority for the special committee to supervise the routine operations of the Defense Department in implementing foreign military assistance programs. Mr. Cutler again explained that this was certainly not the intention of the Planning Board, while Dr. Flemming added that if Secretary Humphrey's interpretation of paragraph 4 was correct, he was just as opposed to it as Secretary Humphrey himself. He said he agreed, however, to accept the second of Mr. Cutler's proposed compromises.

Acting Secretary Talbott said that he would like to comment briefly on the whole range of special consultants and civilian committees as they had been operating in the Defense Department. He had in mind in particular Mr. Robert Sprague's report on continental defense.[6] While admittedly Mr. Sprague's conclusions had been very effectively presented, his report had actually contained absolutely nothing new and nothing of which the Department of Defense and the Joint Chiefs of Staff were not already acutely aware. Moreover, Mr. Sprague's report had involved a "fabulous" waste of man hours in the Defense Department, in view of the fact that it made no contribution whatsoever. In short, the Joint Chiefs themselves were a much more effective group than any of these civilian committees or consultants. Agreeing with Secretary Talbott, Admiral Radford pointed out that of course the Joint Chiefs of Staff handled problems like these every day.

Governor Stassen commented that the President seemed to have a quite different view of the effectiveness of Mr. Sprague's study of the continental defense problem, and that the President believed that the Sprague report had actually brought up a number of new needs in the area of continental defense. Furthermore, said Governor Stassen, he did not feel that any single executive department had a field of activity and responsibility that was exclusively its own business. The President was obliged to decide conflicts between departments and agencies, and it was the duty of the National Security Council to provide means of assisting him in reaching such decisions.

Mr. Cutler confined himself to observing that if the President of the United States desired to make use of civilian consultants he was very likely to request their services, despite the views of the National Security Council. He again suggested his compromise solution of removing the special committee and authorizing the Planning Board to make use of a committee of its own choosing to assist it in arriving at recommendations.

Secretary Hoover indicated that this compromise was satisfactory from the point of view of satisfying the State Department's basic need for a semi-annual review of the whole foreign military assistance picture which would tie in the foreign policy, the military, and the economic aspects of the problem.

At the conclusion of the discussion Admiral Radford again expressed, as he had in the past, his great concern over the ramifications of our military assistance programs. They were too loaded and too big already, and yet we still continued to take on additional programs without any clear idea of where we were going.

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[6] For documentation on continental defense, see volume II.

The National Security Council:

Adopted the recommendations in NSC 5434, subject to the deletion of all reference to the creation of a Special Committee, with the understanding that the NSC Planning Board may utilize such a high-level committee to identify key issues. Specifically, the recommendations were adopted with the following amendments:

a. *Paragraph 2-b:* Delete the words "the members of the Special Committee referred to in para. 3, in addition to the usual limited distribution to".

b. *Paragraph 2-e:* Delete the words "and the Special Committee referred to in para. 3", and insert the word "and" in lieu of the comma between "the Council" and "the Planning Board".

c. *Delete paragraphs 3 and 4 and the footnotes related thereto, and renumber remaining paragraphs accordingly.*

d. *Paragraph 5:* In the first sentence, delete the words "and the Special Committee's report on key issues arising therefrom,". Delete the last sentence.

Note: NSC 5434, as amended, approved by the President and circulated as NSC 5434/1.

[Here follows discussion of agenda items 3–7: "U.S. Policy on French North Africa," "U.S. Rubber Policy," "Expansion of the Labor Service Organization in Germany," "NSC 5401," and "Immediate U.S. Policy Toward Europe."]

S/S–NSC files, lot 63 D 351, NSC 5434

Report to the National Security Council by the NSC Planning Board [1]

SECRET [WASHINGTON,] October 18, 1954.
NSC 5434/1

PROCEDURES FOR PERIODIC NSC REVIEW OF MILITARY ASSISTANCE PROGRAM

OBJECTIVES

1. The recommended procedures outlined below are designed to provide a periodic review for the National Security Council of the broad aspects of the military assistance programs, including major policy considerations relating to force levels, allocations of end items and priorities therefor, and production capabilities included

[1] This report was approved by the NSC at its 217th meeting on Oct. 14, 1954, the memorandum of discussion of which is printed *supra*. A covering memorandum, by NSC Executive Secretary James S. Lay, Jr. dated Oct. 18, notes, *inter alia*, that on Oct. 16 President Eisenhower had approved the Council's action and directed the implementation of NSC 5434/1.

in all uncompleted military assistance programs (totalling at June 30, 1954, approximately $7.6 billion, about $5 billion of which has been obligated), in the light of U.S. security objectives, strategic concepts and other relevant considerations, and with the objective of obtaining the best possible balance in terms of U.S. security.

RECOMMENDATIONS

Modification of Mutual Security Semi-Annual Status Report

2. In order to provide the necessary basis for this periodic NSC review, that portion of the semi-annual NSC status report on the Mutual Security Program which concerns military assistance and supporting programs directly related thereto should be modified as follows:

a. Content. This portion of the semi-annual status report should show the status of military assistance and supporting programs, by countries and areas, in relation to existing governmental policies, commitments, and program objectives, including both actions taken and future planning to implement approved programs. World-wide summaries should be included where appropriate. Coverage should include, but not be limited to, the following:

(1) presently planned force goals for recipient countries;
(2) priorities in allocation of end items among recipient countries, based upon the over-all statement of priorities established under par. 4;
(3) unexpended MDAP funds;
(4) relation of current and anticipated delivery of end items to program objectives;
(5) important limitations upon deliveries of end items imposed by production policies or capabilities;
(6) adequacy of capabilities abroad for production of military end items, and equipment reserves abroad.

b. Distribution. Those parts of the report relating to the evaluation of the combat effectiveness of the forces of recipient nations should be available on a limited distribution basis only to Council and Planning Board members.

c. Format. The report should be presented in as concise a form as will serve the dual objectives of providing a basis for the semi-annual review of military assistance programs and fulfilling the needs of the President and Council for reports on the status of national security programs. To the extent feasible, information should be presented in tabular or chart form.

d. Responsibility for Preparation. With such collaboration as may be desirable, (1) the Department of Defense should prepare that part of the semi-annual status report relating to the military assistance programs which it administers, and (2) FOA should prepare the remaining part, covering the supporting programs directly related to military assistance.

e. Timing. This report should be submitted as soon as practicable, and not later than 60 days, after the end of each calendar half

year, and promptly circulated to the Council and the Planning Board.

Preparation of Recommendations for the Council

3.[2] The NSC Planning Board should review the semi-annual status report referred to above, in order to prepare for Council consideration major policy recommendations with respect to military assistance and supporting programs in relation to all other pertinent national security programs. Specifically, the Planning Board should take into consideration priorities, as between international and national programs, for the allocation of end items and the development of the mobilization base and levels of production at home and abroad.

Consideration of Priorities

4. The statement of priorities relating to pre-D-day allocation of military end items (stocks and new production) to meet U.S. and foreign military requirements, as established by the Secretary of Defense, should be submitted by him to the National Security Council for consideration and recommendation to the President.

[2] Paragraph 3 of the source text is revised from the original draft of NSC 5434/1 as the result of a memorandum of correction dated Oct. 19, 1954, circulated by Lay to all recipients of NSC 5434/1.

U/MSA files, lot 56 D 551, "Secty's Memos of Conv."

Memorandum by the Director of Foreign Operations (Stassen) to the Secretary of State [1]

SECRET [PARIS,] October 21, 1954.

FOREIGN OPERATIONS

I. Broad Objective:

Maximum cohesion of those countries of the world not controlled by the Communists; improvement of military strength, internal

[1] A typed notation on the source text reads: "HES gave to the Secretary in Paris." A covering memorandum from Roderic O'Connor to Nolting, dated Oct. 25, 1954, reads: "Fritz—Stassen gave this to the Secretary in Paris. Will you see that proper people see it, particularly Mr. Hoover." Secretary Dulles and Stassen were at Paris to attend a one-day session of the North Atlantic Council, Oct. 23, 1954.

Secretary Dulles and Stassen held a number of conversations both at Washington and in Europe during this time. On Oct. 18, at Stassen's initiative, the two men had discussed the ultimate disposition of the Foreign Operations Administration. A memorandum of their conversation reads in part as follows: "The Secretary stated that this was an exceedingly complex matter. The only firm feeling which he had was that he would prefer not to have FOA become a part of the State Department. Nevertheless, if it was decided that such should be the policy, he would naturally

Continued

stability, individual freedom, and living standards of these nations both absolute and relative to the Communist area; reduce world Communist power; facilitate a world climate for U.S. economic growth, military security, and internal freedom; all to be attained without war.

II. Problems:

A. The burden of maintaining a substantial modern military force is greater than the less developed countries can bear without an extreme lowering of living standards which could only be accomplished through ruthless totalitarian rule.

B. The centralized politically controlled Soviet economic power can attractively reward or seriously punish any nation except for the few most powerful in an economic sense.

C. Neutralist sentiment and fear of war has a divisive influence upon many nations of the free world.

D. Credit availability in the free world is inadequate to the economic development requirements.

E. In the less developed countries administrative leadership and skill in financial and economic affairs are also lacking.

F. The worldwide Communist apparatus has units within nearly every country engaged in disruptive and subversive tactics which multiply the security, economic, and political difficulties.

G. Indications are that the threat to the U.S. and the free world from the Soviet Communist area will be of many years' duration.

H. Public and Congressional sentiment in the U.S. make it difficult to obtain the trade legislation and the assistance funds required by the world situation.

III. Course of Action:

A. Advise, and carry on a comprehensive effort to convince, the U.S. public and the Congress that an extraordinary program of assistance will continue to be necessary to implement U.S. foreign policy and to safeguard U.S. vital interests and it should not be viewed on a short-term basis.

B. Establish and maintain Regional Economic Cooperation groupings and Regional Credit institutions so as to maximize the use of

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follow out whatever agreement might be made. Although it was agreed that this matter should receive early consideration as soon as he and Governor Stassen returned from Europe, no commitments as to procedure or plans were made by the Secretary." (Memorandum of conversation, by Under Secretary Hoover, Oct. 18, 1954, 103 FOA/10-1854) Stassen and Dulles conducted a wide-ranging discussion at the American Embassy in Paris on Oct. 22 during the course of which, presumably, Stassen handed Dulles this memorandum. However, the objectives and fate of the Foreign Operations Administration were not discussed at this meeting. (Memorandum of conversation, by Dulles, Oct. 23, 1954, U/MSA files, lot 56 D 551, "Secty's Memos of Conv.")

indigenous economic strength, minimize the requirement for U.S. dollars, facilitate the education of local administrative leadership, assist in maintaining cohesion among free nations, and counter Soviet economic warfare.

C. Carefully assess the financial load and economic consequences of military force goals in cooperating countries and avoid levels of forces which cannot be sustained with acceptable internal and U.S. burdens, relying principally on the military strength of the U.S., U.K., and other advanced industrialized countries to deter external aggression and to fight the first stages of a war if forced upon us.

D. Assist countries, where needed, in developing elite internal police forces, specifically designed and highly trained, to cope with internal disorder, guerilla action, and insurrection, and to break up and render ineffective the internal Communist apparatus.

E. Accelerate the training of administrative and financial leadership in less developed countries, utilizing U.S. universities in joint programs with indigenous educational institutions.

F. Study the possibility of creating an additional device for maintaining cohesion among the free nations through a special U.S. tariff which can be added by the President to the products of any country which does not cooperate in *multilaterally* agreed trade rules versus the Communist area designed to restrict the Soviet war potential. The special anti-dumping tariffs are a precedent for such action. Access to the U.S. market is the most potent economic lever.

IV. Organization to Carry out the Courses of Action:

A. There are a number of alternative forms of organization which can be effectively used to carry out these courses of action. Each has certain plus and minus factors.

1. The present form of organization placed on a more durable basis by Congressional action.
2. An organization within the Department of Defense, such as a Department of Mutual Security, reporting to the Secretary of Defense.
3. An organization within the State Department, such as a Foreign Operations Administration, reporting to the Secretary of State.
4. An organization within the Treasury, such as a Foreign Finance Corporation, reporting to the Secretary of the Treasury.

B. It is very important that the activities be not split up into many pieces and scattered through a number of Departments. An entity somewhere in the government charged with the operational responsibility of fitting together comprehensive U.S. programs with reference to countries and regions is essential to success in implementing U.S. foreign policy. The same entity must have in its

direct administration the personnel required to bring about prompt execution of approved country programs.

The recent complete renegotiation of East-West trade controls,[2] the comprehensive emergency program in Iran, the Viet Nam refugee and relief action, the combined steps leading to the spectacular improvement in European currencies and approach to sterling convertibility, the Pakistan wheat and flood programs, the Bolivian emergency supply action, the East German food packages—as examples—would have been extremely difficult to successfully conduct if a combined operating entity had not existed somewhere in the government or if that entity did not have direct jurisdiction over personnel with the skills and experience required.

C. The continuation of the present form of organization is considered most desirable because it is functioning successfully. The Secretary of State's emphasis upon the State Department as a policy organization is beginning to show significant results from intelligent policy formation, and the operations entity is responsive and effective in carrying out policy without involving State in operational details.

Congressional opposition might be difficult to overcome, but the record of accumulating success of the present method, if presented with a strong recommendation of the President and the Secretary of State, would presumably be accepted by the Congressional leaders of both parties.

D. The second alternative would be the establishment within the Department of Defense of a Department of Mutual Security. This is considered as second in desirability because the Department of Defense is essentially an operational department and additional operational activities would fit readily. Furthermore, the inter-relationships of the military, police, economic, East-West trade, and development factors are extensive and could be better resolved in the Department of Defense than elsewhere. The necessary appropriations could be obtained easier in this form. A charge of "militarism" in the program and a danger of excess orientation toward military objectives as distinguished from national foreign policy objectives would be minus factors. Both could be overcome by the actual conduct of the program.

E. The third alternative would be the establishment of an entity such as a Foreign Operations Administration in the State Department. This would have the advantage of closer control by the Secretary of State and would be conducive to broader understanding of the fact that the program was designed to implement the foreign policy of the United States. Disadvantages would be increased diffi-

[2] For documentation on the renegotiation of East-West trade controls, see pp. 817 ff.

culty in obtaining necessary appropriations, involvement of State in operational details, and clouding of the distinct policy formation role of State for the entire government.

F. The fourth alternative would be the establishment of an entity in Treasury. This would have the advantage of bringing the creditor role of the U.S. into better focus and would emphasize the fact that the total program is in the U.S. national interest. It would result in increased understanding in Treasury of the nature of the program and its accomplishments. It would involve a rather complete shift to loans rather than grants, including loans for military equipment. The latter would assist in holding down the arms requests of the less developed countries. This alternative would be closer to the U.K. system with the Chancellor of the Exchequer's broad responsibilities.[3]

[3] The only immediate reaction to the Stassen memorandum from within the Department of State found in Department files was a memorandum from Assistant Secretary of State for Personnel and Administration Isaac W. Carpenter to Charles E. Saltzman, Under Secretary of State for Administration, dated Oct. 28, 1954, in which Carpenter asserted that the "most logical resting place for FOA's integration or liquidation would be through the Department of State" and inquired "whether or not any planning assignment has been given to any department." (A/MS files, lot 54 D 291, "Foreign Operations Administration")

Editorial Note

On November 6, 1954, President Eisenhower issued Executive Order 10575 which further defined the administration of foreign aid functions. In his Executive Order the President more precisely divided and defined responsibility for the foreign aid program between the Foreign Operations Administration and the Departments of State, Defense, and Commerce. The Executive Order also stipulated that the chiefs of United States diplomatic missions abroad would exercise, as direct representatives of the President, plenary coordinating powers over all aspects of United States policy relating to the respective countries to which they were accredited. Furthermore, the chiefs of mission were granted plenary adjudicatory powers in all unresolved policy matters "unless a representative of a United States agency requests that the issue be referred to the Secretary of State and the United States agencies concerned for decision." For text of Executive Order 10575, see 19 *Federal Register* 7249.

103 FOA/11-1954

Memorandum of Conversation, by the Secretary of State

OFFICIAL USE ONLY WASHINGTON, November 19, 1954.

MEMORANDUM OF CONVERSATION WITH MR. STASSEN

We talked about the future organization of economic work. I said I thought that Mr. Dodge would recommend a sort of economic NSC [1] to be presided over by an assistant to the President. There would be on this council the representatives of various agencies interested in economic policy with a view to securing coordination. Mr. Stassen said he was not familiar with this possible recommendation.

Mr. Stassen then asked my own views with reference to the future of FOA. I said that while I had no clear views, my thinking was running along the following lines:

1. The FOA to continue in being and to deal with (a) defense support programs where we gave budgetary aid to enable countries to maintain the size and character of military establishments we wanted and which they could not afford to do unaided, and (b) offshore procurement, where of course there would need to be close cooperation with the Defense Department.

2. I said that I thought that other matters on economic aid should be handled by a new investment corporation to be formed, presumably on a universal basis, although possibly there might be more than one on a regional basis with substantial capital of say two or three billion dollars. They would make loans which in some cases might for political reasons be "soft" loans in local currency, but the organization would also make development loans in capital improvements in South America, the Far East and Middle East and take over that type of work now being done by the Ex-Im Bank so that that bank would limit itself primarily to the financing of United States exports and imports. I said I thought that this institution might very well be primarily under the guidance of the Treasury Department with representation of State, Commerce, etc., on the assumption that Treasury would recognize it as an instrument of national policy.

I said that I felt that Stassen had to come up with some new plan for trimming FOA if he was to ride through the next Congress.

JFD

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[1] Reference is presumably to the "Dodge Report" to President Eisenhower; see the editorial note, p. 104.

700.5 MSP/11–3054

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

CONFIDENTIAL WASHINGTON, November 30, 1954.

Subject: Mutual Security Program Proposed for Fiscal Year 1956.

Discussion

There are now available for your consideration, prior to a firm recommendation from Mr. Stassen to the Bureau of the Budget, estimates of requirements for the next fiscal year under the Mutual Security Program. These fall into two parts; the military end-item and training requirements and the non-military requirements. The latter are arranged under the categories of direct forces support, defense support, development assistance, technical cooperation, and multilaterial programs.

Representatives of the geographic bureaus and of my office have participated in the screening of submissions from the field in order to arrive at these recommendations to you. I have also had the opportunity to review at length with Governor Stassen and his assistants the non-military submissions, and as a result we have in most instances arrived at an agreed figure, ad referendum to you. In a few instances, the Assistant Secretaries concerned recommend upward adjustments in the figures discussed with Governor Stassen. I will bring their recommendations to your attention this afternoon.

It should be noted that, in arriving at the estimates which will be discussed with you today, it was assumed that (a) the organizational arrangements within the U.S. Government for carrying out aid programs would remain as at present, and (b) the Congressional limitation on the continuation of development assistance programs beyond June 30, 1955 was not taken into account.

I should like in this memorandum to comment on three aspects of the Mutual Security Program:

1. The amounts involved.
2. The balance between the military and the non-military programs.
3. The modalities of furnishing U.S. assistance.

The total amounts recommended for the Mutual Security Program in fiscal year 1956 is $3.226 billion. This is divided into $700 million for military assistance and $2.526 billion for economic programs ($200 million of the latter to be reimbursed to Defense for military funds used for economic purposes this year). After careful consideration, the Defense Department has decided that it does not

need more than $700 million of now appropriations to enable it to continue the military assistance program at approximately the expenditure level of recent years, which in fiscal 1956 is estimated at $3.3 billion. I am satisfied that approximately $3.3 billion worth of equipment can be delivered in fiscal year 1956 under the Defense proposal. The question therefore hinges on whether or not, in your judgment, a delivery rate higher than $3.3 billion is necessary next fiscal year, in the light of the projected world situation, including the rearmament of Germany and the additional tensions this may generate.

On the economic side, the proposed figure of $2.526 billion compares with $1.898 billion requested of the Congress for these purposes last year. The increase is the result of the inclusion of a world-wide contingency fund of $150 million to meet unforeseen emergencies, the proposal to contribute $250 million to a regional economic organization in the Far East, and the $200 million for reimbursement to Defense. The levels of other programs, generally speaking, are approximately the same as this fiscal year.

One of the factors which is very important in considering these matters is whether or not, as a matter of policy, the United States should undertake to build up forces in friendly countries beyond the economic capacity of those countries to support such forces. Examples are Turkey, where this has already been done, Formosa, and Korea; and, either promised or under consideration, Pakistan, Iran, Thailand, and the Philippines. The submissions before you, generally speaking, do not envisage force levels beyond the economic capacity of the countries except in those cases (Korea, Formosa, Turkey, and Pakistan) where commitments have already been made. Indo-China, of course, is an exception.

Regarding the modalities of furnishing United States assistance, and with specific reference to your memorandum of conversation with Mr. Stassen of November 19,[1] these submissions do not envisage the creation of a U.S. "soft loan corporation". They do, however, as noted above, anticipate the contribution by the U.S. of $250 million to an Asian economic organization, one of whose functions would be to lend on easy credit terms for development projects in the area. Furthermore, it is roughly estimated that $350–$400 million of the non-military funds can and should be extended in the form of loan assistance, following the pattern established this year under the $200 million Congressional requirement. As you know, I have personally held the view for over a year that the establishment of a liberal-term lending institution, with sufficient capitalization, would supply the missing ingredient in a number of our aid

[1] *Supra.*

programs—namely, continuity and a sense on the part of the recipient of his ability to carry through to completion fundamental development projects. I think this sense of continuity cannot be achieved under our system of annual authorizations and appropriations. However, it is clear that the capitalization of such a lending institution in fiscal year 1956 would result in a net increase in the amount contained in the present submissions—perhaps $1.5 billion increase. By the same token, it would doubtless result in a reduced requirement for fiscal year 1957. You may wish to discuss this concept further with Mr. Stassen this afternoon.[2] If it is decided to seek the authority to establish such an institution, it is strongly recommended that it not be placed under the control of the Treasury Department, but rather that it have a five-man board of directors, three of whom should be appointed by the Secretary of State.

Recommendation

1. That at the meeting this afternoon you give your endorsement to the general order of magnitude of the present submissions, subject to minor variations (Iran, UNWRA) which I will raise pursuant to the views of the bureaus concerned.

2. That you endorse the balance between military and non-military programs contained in these submissions.

3. That you discuss further the concept of a lending institution with Mr. Stassen.

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[2] Secretary Dulles met with Stassen, Ohly, Nolting, and others at 3:37 p.m. on Nov. 30. The record of this meeting is in Princeton University, Dulles papers, "Dulles' Appointment Book".

Editorial Note

Interagency planning for the fiscal year 1956 Mutual Security program culminated in a meeting between Secretary Dulles and Stassen at the Department of State on November 30, at which time agreement was reached on MSP Non-Military Programs, and at the 227th meeting of the National Security Council on December 3, 1954, when fiscal year 1956 budget considerations were discussed at length. The meeting between Dulles and Stassen was summarized in a memorandum by Nolting to Secretary Dulles on December 1, 1954. This memorandum and the memorandum of discussion at the 227th meeting of the National Security Council, December 3, 1954, are printed in volume VI.

700.5 MSP/12-1654

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State

CONFIDENTIAL WASHINGTON, December 6, 1954.

Subject: Proposals on organization to be discussed with Secretary Humphrey this afternoon [1]

Pursuant to your request, I recommend the following general outline of organizational structure for the Mutual Security Programs for FY '56. I should like to stress again the urgency of a decision in this matter, for reasons both of continuity of operations in the Mutual Security field and adequacy of presentation to the Congress early next spring. I believe that the decision on this question is important enough, and of sufficient interest to the Congress, to warrant its inclusion in either the State of the Union Message or the President's Budget Message in January.

1. Military Assistance Programs (hardware and training) and Direct Forces Support Programs (common-use items and, in some cases, direct payment of military expenses) should be administered by the Department of Defense, subject to policy guidance and control by the Secretary of State.

2. Defense Support Programs, Technical Cooperation Programs, Multilateral Programs, and all other functions of the Foreign Operations Administration except Development Assistance should be transferred to the Department of State. This proposal would include the administration of the Battle Act, the Escapee Program, the investment promotional work of FOA, and other miscellaneous activities (some of which might be dropped). This is recommended only if we are prepared to undertake the necessary reorganization required within the State Department to carry out these functions.

3. To carry forward the necessary Development Assistance Programs, a world-wide lending institution should be created, perhaps on a corporate basis, for which multi-year capital funds should be requested of the Congress. It seems to me essential, if such an institution is to serve foreign policy objectives, that its board of directors should be responsive to the recommendations of the Secretary of State. Such an institution should be empowered to make both hard and soft loans. There is an open question as to whether its charter should not also enable it to make available grant assistance, within certain defined limits, in cases of necessity.

Within the above concept, the State Department would become responsible (a) for the coordinating role for Mutual Security *in toto*,

[1] See footnote 2, *infra*.

and (b) for the operating role for a large segment thereof. I do not wish to minimize the fact that this would, in my judgment, require very considerable changes within the State Department, increases in personnel, budget, and in other respects.

If the above proposal is judged infeasible for one reason or another, I would recommend that we stick to the present organizational arrangements within the U.S. Government and reach an affirmative decision to pull together to persuade the Congress to continue these present arrangements, rather than attempt to split up the present functions of FOA, thereby increasing the difficulties of coordination and failing to meet the essential desiderata of the Congress.

FREDERICK E. NOLTING, JR.

700.5 MSP/12-754

Memorandum by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Secretary of State [1]

TOP SECRET EYES ONLY [WASHINGTON,] December 7, 1954.

Subject: Organization Plans for the Mutual Security Program.

The Under Secretary gave me an outline yesterday evening of the tentative conclusions reached with Secretary Humphrey at your meeting yesterday afternoon.[2] I believe you would want me to give you my considered reaction to these proposals, even though my view may run counter to what has already been tentatively agreed.

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[1] Addressed also to the Under Secretary of State. Another copy of this memorandum is in the Eisenhower Library, John Foster Dulles papers, 1951–1959, "ICA Matters".

[2] Attached to the memorandum of this conversation found in the Dulles papers cited in footnote 1 above is a brief "Memorandum of Conversation With Mr. Humphrey, Secretary of the Treasury (Mr. Hoover present)", Dec. 6, 1954, on the subject "Reorganization of FOA Functions", drafted and signed by Secretary Dulles. It reads as follows:

"There was discussion of the possibility of reorganizing the present functions of FOA along the following lines:

"1. Military assistance programs and Defense support programs to be administered by the Department of Defense once the policy and amount had been decided on with the concurrence of State.

"2. Economic assistance to take primarily the form of 'soft' loans and to be made by the Treasury Department under the direction of the Department of State. Treasury would be authorized to advance funds under these circumstances up to some agreed amount, say $500,000,000 to $1,000,000,000, and when this amount was exhausted then the matter would go back again to the Congress for further authorizations if deemed desirable.

"3. Policing of the Battle Act to be turned over to the Department of Commerce.

"4. Handling of Technical Cooperation programs recognized as requiring further study."

I should say first that I fully appreciate the difficulties, both substantive and of a personal nature, involved in a decision on this subject and I am very happy that an initiative has been taken to face the issue and to resolve it. However, if I understand correctly the nature of the proposed solution, I must state my conviction that it moves us in the wrong direction. I think those most closely connected with the foreign economic field, including the foreign aid field, are unanimous in their opinion that what is needed is more consolidation, not less. Certainly this is my own conviction. The purpose of all of our actions in the foreign economic field, including the Mutual Security Program with its military segment, is to provide a tool to help fulfill our foreign policy objectives as determined by the President and the Secretary of State. The Mutual Security Program, in particular, is a single tool and can best be utilized to promote our foreign policy when it is regarded and administered as a single tool. To divide this tool among various agencies of government is to diminish its effectiveness, however much cooperation and agreement is achieved among the heads of the departments involved. It has been my experience that the inevitable workings of departmental bureaucracies tend to segment and compartmentalize the activities for which the various departments are responsible, and that no amount of topside coordination can bring about a truly unified effort where the various functional parts are distributed among a number of different agencies and departments. My conclusion on this point, I think, is validated by the history of the Mutual Security Program. Experience and trial-and-error over the past five years has led to the conclusion that the administration of these programs should be consolidated, rather than proliferated. It is not enough, I think, to attempt to consolidate them on a *policy* level. It is necessary also, in so far as possible, to consolidate them on an *operational* level.

I believe it is in the United States interest to continue for an indefinite period the major activities of the Mutual Security Program. Changes in the form of assistance, different and better techniques, longer range planning, perhaps a different and better distribution of U.S. resources by area, are doubtless needed and should be under constant consideration. Some of the peripheral activities of the FOA (several of which are imposed by legislation) should be dropped. But the major components of this activity, I believe, are in the interest of the United States so long as the cold war continues, and perhaps thereafter.

I think the decision to acquiesce in the "Mansfield Amendment"[3] is a wise one, since to buck this amendment would result in the

[3]See the memorandum by Nolting to the Secretary of State, July 12, 1954, p. 739.

alienation of support for the programs themselves, to an extent that would jeopardize their authorization and the appropriation of necessary funds to conduct them. I am quite clear, however, that what the proponents of this amendment had in mind was not the scattering of these functions throughout the government, but rather the consolidation of the essential ones into two old-line departments of the government—namely, the Departments of State and Defense.

I understand your reluctance to take back into the State Department a large operating branch. It was, however, the clear desire of the Congress that the non-military parts of the Mutual Security Program should be conceived, formulated, presented, and administered by the Department of State. This was for two reasons: to assure the Congress that these programs are in fact a necessary tool of our foreign policy, and to bring about a unified administration of them, both at home and abroad. It was also the clear intention of the Congress that the military parts of the program should be conducted by the Department of Defense, under the policy guidance of the Secretary of State.

I do not believe the tentative decisions of yesterday, as I understand them, accomplish the objectives of the Congress, nor do I think they are administratively sound. Those proposals, as I understand them, envisage the introduction of at least two and perhaps more operating agencies, and the elimination of one. The two additions would be the Treasury Department and the Commerce Department (for the Battle Act) and perhaps some other agency or agencies for the Technical Cooperation Program, besides the Department of Defense for military programs and for economic "defense support" grant assistance. This would presumably leave the responsibility for the coordination of the various programs with the Secretary of State, who could not, in my judgment, exercise adequate control over their operation. I think Mr. Saltzman could give you a first-hand account of the difficulty he experienced in giving policy guidance to the "Occupied Areas Branch" of the Defense Department, which was engaged in the economic aid business after World War II, and I feel that such experience is relevant to your consideration of this problem.

As stated in my memorandum to you of yesterday,[4] I think that unless the decision is made to take back into the State Department the major non-military programs, the only sensible alternative is to try to persuade the Congress to continue some such central coordinating and operating agency as the FOA.

F. E. NOLTING, JR.

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[4] *Supra.*

Eisenhower Library, Eisenhower papers, White House Central files, 1953–61

Memorandum to the President by the Director of Foreign Operations (Stassen)

SECRET WASHINGTON, December 9, 1954.

Subject: Transfer of Funds Within the Authority Provided by Congress Under the Mutual Security Act to Meet Certain New and Increased Needs for Mutual Security Assistance.

1. Certain situations have recently arisen which, under applicable NSC decisions and in accordance with the foreign policy guidance of the Secretary of State, require (a) the initiation of several foreign aid programs which were not specifically contemplated and provided for at the time when the current Fiscal Year Mutual Security Program was first presented to the Congress and (b) an increase in the level of aid planned for several countries when the Congressional presentation was made. The implementation of these new and enlarged programs is dependent on certain fund adjustments among the various appropriation accounts in the Mutual Security Program.

2. The following two provisions of the Mutual Security Act of 1954 give the President authority to transfer or otherwise to apply funds available for other purposes in order to finance assistance programs necessitated by these new situations:

A. Section 501 provides that the President may transfer, whenever he determines it to be necessary for the purposes of the Act, not to exceed 10 per centum of the funds made available pursuant to any provision of the Act to any other provision of the Act, provided that no appropriation can be increased through transfers under this section by more than 20 per centum of the amount of such appropriation.

B. Section 401 of the Act provides that not to exceed $150 million of the total funds made available under this Act may be used in any fiscal year without regard to the requirements of this Act or any other Act for which funds are authorized by this Act, in furtherance of any of the purposes of such Acts, when the President determines that such use is important to the security of the United States.

3. There are presently unobligated Mutual Security funds which can be utilized to meet these new and increased requirements without significant damage to the other activities for which they are now earmarked, provided, but only provided, that new funds are appropriated next year to cover such activities. The possibility of making such temporary diversions arises among other things from

the delay in German rearmament, the ending of the Indochina War, and a number of other factors which have kept the rate of obligation below the rate authorized and appropriated by Congress. The approximate gross amount of unobligated funds as of this date is $4.3 billion. The major portion of these funds is for military purposes.

4. It is therefore recommended that the President determine that it is in the interests of the United States to meet these new and urgent needs and that by employing the several powers referred to in paragraph 2 above, he utilize military assistance funds for such purpose. It is further recommended that Congress be requested, as part of the Fiscal Year 1956 Mutual Security Program, to appropriate funds to restore the specific military assistance appropriations from which funds are diverted to meet these additional needs.

5. Consultation with respect to these proposed adjustments has been carried out with the leadership of both political parties in the Congress. The reaction has been uniformly favorable.

6. The specific transfers which are necessary and a summary of the reasons for each such transfer are as follows:

A. *Egypt*—$20 million.

With the conclusion of the Suez agreement,[1] the aid commitments in the President's letter to General Naguib became operative. Thereupon, and in view of the decision of the Egyptian Government not to request any arms aid immediately, the Department of State has concluded, and FOA concurs, that a $40 million program of economic assistance should be carried out. Since our FY 1955 appropriation request allowed for only $20 million for economic aid to Egypt, additional funds in the amount of $20 million must be found.

B. *Iran*—$30 million.

With the successful conclusion of the oil settlement, it is in the United States national interest to assure economic and political stability in Iran until the oil revenues begin to flow in adequate amounts to support the economy. It is estimated that $30 million will be required for this purpose over and above amounts otherwise available and needed for assistance to Iran. We believe that the additional $30 million required for this purpose can properly be provided as a *loan* and not a grant. Such loan would be administered through the Export-Import Bank, but Mutual Security funds are needed.

C. *Pakistan*—$55.6 million.

The consummation of the Mutual Security agreement with Pakistan following on the Turkey-Pakistan defense agreement opened up an important gain in United States security interests in the Near East-South Asia area. A study of the requirements for assistance and the conferences with the Prime Minister and Chief of Staff of Pakistan in Washington led to the conclusion that there

[1] For documentation on the Suez agreement, see volume IX.

should be a total program for Pakistan which would be $55.6 million above the level possible with funds now available for this area.

D. *Guatemala*—$3.7 million.

The emergence of Guatemala from Communist domination found the new friendly government facing a critical condition. To meet this condition, and to stabilize the political and economic situation quickly, this new government required assistance from the United States substantially in excess of the amount planned in our request to Congress last spring. Compliance with this request would appear to be very much in the U.S. national interest.

E. *Haiti*—$700 thousand.

A devastating hurricane created urgent needs for food and other relief. The cost of transporting the necessary food, as well as the costs of both transportation and procurement of other emergency supplies, must be borne by Mutual Security funds and, of course, no specific funds had been appropriated for this purpose.

F. *Coal Fund*—$20 million.

The effective utilization of coal in the Mutual Security Program requires a separate fund. Details of the proposed operation of this fund are outlined in a memorandum herewith attached.

G. *Italy*—$15.5 million.

The successful Trieste settlement gave rise to certain requirements in Italy which, in the United States national interest, should be met in the amount above.

H. *Yugoslavia*—$4.8 million.

The successful settlement of the Trieste dispute [2] and the Yugoslav drought have combined to create certain requirements which call for the provision of an added amount of aid which cannot be financed from the regular appropriation but which is needed to carry out what is regarded to be the minimum program necessary for Yugoslavia during this fiscal year.

I. *Spain*—$15.5 million.

In view of the reduction in Spanish export earnings as result of a drought and a citrus frost and in view of the importance of assuring a reasonably stable economy in a country where such extensive United States base construction is being undertaken, it is considered that $15.5 million must be added to those funds now available for the purpose in order to carry out an adequate program in Spain during the current year.

J. *Danube Flood Relief*—$1.2 million.

Payment of the ocean transportation costs of the agricultural products made available to the Danube Relief Program under the President's decision of August 12, 1954, and the President's determination of October 25, 1954, requires that funds in the foregoing amount be made available for this purpose by use of the authority cited in paragraph 3 above.

7. Attached hereto is a proposed Presidential determination and authorization which, if executed by the President,[3] would have the

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[2] For documentation on Trieste, see volume VIII.

[3] The proposed Presidential determination and authorization, not printed, carry the signatures of Secretaries Dulles and Wilson, Rowland Hughes, the Director of

Continued

effect of making available from military assistance appropriations the funds necessary to carry out the programs listed above. The concurrences and comments of the other Departments and Agencies concerned are indicated on the usual carbon copy of the proposed action paper.

8. Financing the added requirements referred to above will not significantly increase actual expenditures under the Mutual Security Program during Fiscal Year 1955.[4]

HAROLD E. STASSEN

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the Bureau of the Budget, and Stassen. There is no Presidential signature; however, in a letter to Senator Alexander Wiley (R.-Wis.), Chairman of the Senate Committee on Foreign Relations, dated Dec. 10, Stassen stated that President Eisenhower "has now taken the formal action necessary under the Mutual Security Act of 1954 for the transfer of funds to meet certain new and increased needs for Mutual Security assistance. At the President's request, I am sending you a copy of his memorandum of determination." Stassen's letter to Senator Wiley is in the Eisenhower Library, Eisenhower papers, White House Central files, 1953–61.

[4] Attached to the source text is an undated and unsigned memorandum entitled "Memorandum on $20 Million Coal Procurement Fund," in which the proposal was set forth to establish a coal procurement fund from appropriations for assistance authorized by the Mutual Security Act of 1954. The fund was to be utilized to finance coal shipments to any friendly country where an economic need existed, whether or not such country was directly eligible for assistance under the Mutual Security Act. The Presidential determination and authorization discussed in footnote 3 above provided for the establishment of this fund.

700.5 MSP/12-1054

Paper Prepared by the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) for the Secretary of State [1]

SECRET [WASHINGTON,] December 10, 1954.

PROPOSED ORGANIZATIONAL ARRANGEMENTS FOR CARRYING ON THE MUTUAL SECURITY PROGRAM IN FY 1956

The Mutual Security Act of 1954 requires that the Foreign Operations Administration "shall cease to exist" by June 30, 1955. Therefore, it is necessary that a decision be reached on arrangements for carrying on those functions of the FOA which are deemed essential to U.S. security. The Mutual Security Program should be reorganized in a manner which will disrupt as little as possible the functioning of its several parts. To achieve the maximum of Congressional support and good-will for the Mutual Secu-

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[1] A covering memorandum from Nolting to Secretary Dulles through Under Secretary Hoover reads: "Pursuant to your request, there is attached a paper on possible organizational arrangements for carrying on the Mutual Security Program in fiscal year 1956."

rity Program, the President may wish to make known to Congressional leaders his basic decision in this matter promptly.

The following suggestions for reorganization are based upon a distinction between the *operating functions* under the Mutual Security Programs on the one hand, and the *functions of planning, policy direction, overall supervision,* and *operational coordination,* on the other. Since the basic purpose of the Mutual Security Act is to promote the foreign policy and security of the United States, it is essential that the Secretary of State should exercise a large measure of overall responsibility over it. However, in order to keep the Secretary of State free of over-burdening operational duties, it is desirable, and is believed feasible, to decentralize the operating functions under the Mutual Security Program and to distribute them among the regular departments of the government. The exact distribution and placement of these functions should be the subject of a careful study and recommendation to the President, and no fixed pattern should be adopted in advance of such a study and recommendation. However, as an example of the way in which the present Mutual Security functions might be fitted into the operations of the regular departments of government, the following is suggested.

A. *Military Assistance:* (Military end items, training, infrastructure, etc.).

Department of Defense should develop and administer programs as at present.

B. *Direct Forces Support*: (Common-use items, financial support for military forces).

1. Department of Defense should develop and administer programs;

2. Department of Defense should present programs to Congress;

3. Special arrangements should be made for foreign policy guidance by the Secretary of State to assure coordination with other programs.

4. In the field, the Chief of Diplomatic Mission should be responsible for assuring development and execution of programs in support of U.S. objectives.

C. *Defense Support*: (Budget support for agreed level of forces and economic improvement).

1. Since this category of aid covers a variety of purposes, the programs should be reexamined for their primary purpose;

2. Those programs undertaken for support of forces should be administered by Defense as a part of Direct Forces Support;

3. Those programs directed at improving economy of country should be made a part of Development Assistance.

D. Development Assistance: (Commodity, material and financial assistance for economic development).

1. Programs should be on a loan basis—repayable in local currencies, long-term and low-interest;

2. Program to be supervised by Treasury with actual loans administered by Export-Import Bank or special organization in Treasury;

3. Treasury will make loans at request of Secretary of State when he deems it necessary in interests of U.S.;

4. Authority for program should provide for several years' duration, possibly three to five years.

E. Technical Cooperation: (Technical assistance and supplies for demonstration purposes).

1. Programs should be developed, directed and coordinated by State;

2. State should present programs to Congress with assistance by other government agencies;

3. Operations should be decentralized to permit carrying out through private foundations and institutions, colleges and universities, and appropriate government agencies. For example, technical cooperation projects in the field of public health might be carried out by the Department of Health, Education and Welfare; in the field of agriculture, by the Department of Agriculture; and in the field of highway construction irrigation, etc., by the Interior Department.

F. Multilateral Organization: (Contributions to UN specialized agencies and other international organizations).

1. Should be administered and presented to Congress by Department of State.

G. Escapee Program: (Aid to Iron Curtain and other refugees).

1. To be administered and presented to Congress by Department of State.

2. Scope of program to be reexamined for possible transfer of certain activities to international or other U.S. agencies.

H. Voluntary Private Relief Agency Programs: (Ocean freight subsidies).

1. Activities relating to ocean freight costs of surplus agricultural commodities to be administered by Department of Agriculture.

2. Activities relating to ocean freight costs of regular relief shipments to be administered by Department of Health, Education and Welfare. The need for continuing this activity should be reviewed.

I. Battle Act: (East-West trade controls).

1. To be administered by Department of Commerce;

2. Special arrangements should be made to assure foreign policy guidance by and coordination with Secretary of State.

J. Title II, P.L. 480: (Emergency and disaster relief using surplus agricultural commodities).

1. Program to be administered by Department of Agriculture after determination by Secretary of State that aid should be furnished.

K. Field Organization:

1. Agency representatives in the field should function as members of staff of the Embassy, subject to the direction and control of the Ambassador. This would consolidate U.S. representation abroad, and eliminate unnecessary personnel, and expense.

U/MSA files, lot 56 D 551, "MSP FY 1956"

The Director of the Bureau of the Budget (Hughes) to the Director of Foreign Operations (Stassen) [1]

WASHINGTON, December 13, 1954.

MY DEAR MR. STASSEN: Your budget estimates for the fiscal year 1956 and the information presented by your representatives and those of the other agencies concerned have been given careful analysis. The President has approved the inclusion in the budget of the following recommendations for Mutual Security appropriations:

Military Assistance	$1,400,000,000
(Including $0.2 billion expected to be required because of utilization of military assistance funds in FY 1955 for other programs.)	
Direct Forces Support	630,000,000
Other Mutual Security Programs	1,500,000,000
Total	$3,530,000,000

[1] The source text is an enclosure to a memorandum of Dec. 14, 1954, by Ohly to 14 addressees in the Foreign Operations Administration and the Departments of State and Defense, which reads as follows: "There is forwarded herewith for information, and in certain cases for appropriate action, a copy of the FY 1956 allowance letter from the Director of the Bureau of the Budget to the Director of the Foreign Operations Administration dated December 13, 1954." The copy printed here is that sent to Nolting.

The total for Military Assistance includes the appropriation for infrastructure which has already been authorized by the Congress. This total also includes $500 million to offset assumed losses resulting from section 1311 of the Supplemental Appropriation Act, 1955, as modified by section 110 of the Mutual Security Appropriation Act, 1955. In case actual losses are significantly less than $500 million, the totals should be reduced correspondingly prior to transmission of the 1956 authorization request to the Congress.

The President has also approved for presentation in the budget the following expenditure estimates:

	1955	1956
Military Assistance	$2,675,000,000	$3,075,000,000
Department of Defense	(2,500,000,000)	(3,000,000,000)
Other Agencies	(175,000,000)	(75,000,000)
Direct Forces Support	550,000,000	600,000,000
Other Mutual Security Programs	1,075,000,000	1,025,000,000
Total	$4,300,000,000	4,700,000,000

Members of the Bureau of the Budget staff will communicate with your budget officer concerning the narrative statement and other details relating to the above amounts. Please have your budget officer prepare the figures for 1955 and 1956 in the schedules of obligations to agree with the approved estimates. The schedules should be submitted not later than December 16, 1954.

The recommendations of the President, the estimates submitted, and any other information used in the formulation of these recommendations are to be kept confidential until the budget message is presented to Congress, except that in those cases where the Bureau of the Budget releases estimates to the committees on appropriations prior to that time, the estimates may be discussed with members and staff of those committees. In such cases the agency will be advised before the estimates are released.

Sincerely yours,

ROWLAND HUGHES

Eisenhower Library, White House Office, Office of Staff Secretary records, 1952-61

Notes on the Legislative Leadership Meeting, Held at the White House, December 13, 1954 [1]

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon

Sen. Knowland
Sen. Bridges
Sen. Millikin
Sen. Saltonstall
Sen. Ferguson

Speaker Martin
Rep. Halleck
Rep. Arends
Rep. Allen

Gov. Adams
Gen. Persons
Mr. Shanley
Mr. Hagerty
Mr. Snyder
Mr. Morgan
Mr. Randall
Mr. Jack Martin
Mr. Harlow
Mr. Gruenther
Dr. Hauge
Mr. Minnich

Sec. Dulles
Asst. Sec. Thruston Morton
Sec. Humphrey
Sec. Wilson
Asst. Sec. McNeil
Asst. Sec. Carter Burgess
Asst. Sec. Seaton
Asst. Sec. Struve Hensel
Mr. Summerfield
Asst. PMG Lyons
Mr. Ben Guill
Sec. Benson
Sec. Mitchell
Sec. Hobby
Under Sec. Rockefeller
Asst. Sec. Perkins
Director Hughes, Budget
Mr. Brundage
Gov. Stassen, FOA
Chrm. Young, CSC
Mr. Albert Cole, HHFA
Dr. Milton Eisenhower

The President opened the meeting by noting that the past year had left much unfinished business, which would constitute a large part of the program for the coming year, and that there would not be a great deal of material new to the Leaders. He felt the task of getting a program through would be more difficult because of Democratic control of the Congress, that there would have to be some experimentation on procedures in dealing with this new situ-

[1] Drafted by Assistant Staff Secretary to the President, L. Arthur Minnich, Jr. The source text indicates the meeting was held from 8:30 a.m. to noon and resumed at 2:30 p.m. to 5:45 p.m.

ation, but that it was helpful to have already developed pretty well procedures for doing business among Republicans.

[Here follows discussion of budget and fiscal matters, foreign policy, and defense matters.]

Mutual Security—Mr. Stassen pointed out that FOA continued to be responsible for preparing and presenting the program for the following year even though it would no longer be in business. How to handle the program after June 30th was something for the President and Congress to decide.

Mr. Stassen then outlined a "Partnership Program" stressing that the bulk of the program would be devoted to Korea and Indo-China, that the entire program was developed on the basis of strengthening places where we had airbases or helping places where it was to our interest to keep the Communists from establishing airbases.

Sen. Knowland expressed his disappointment that the Yugoslavs had abstained from the vote (UN ?) expressing moral indignation as to the 13 prisoners. Mr. Bridges asked about rumors that the Russians and the Yugoslavs were growing together again. Mr. Stassen said the Russians had a drive on for this purpose but that we will succeed in holding Yugoslavia out of the orbit.

Mr. Stassen then quickly went over charts showing the heavy drain of security measures on the economies of our friends in the Asian area, also regarding trade of Japan, Pakistan, etc. For Iran, our assistance will be returned to a loan basis rather than grant. The President noted that he was having lunch with the Shah, also that our desire was for Iran to strengthen its force of 90,000 men rather than enlarging it. Mr. Stassen also showed charts on our raw material requirements for future years and where they must come from as related to our mutual security program; a chart on the intensified Russian effort in economic warfare; one on the Agricultural Surplus Program, and another on US Private Investment Abroad.

Mr. Hensel presented the Mutual Defense Assistance Program, stating that the big problem involved the switches in programs to meet emergencies. Many major ones had already occurred this year that could not be foreseen when the program was presented to Congress earlier in 1954. He and Mr. McNeil answered a number of questions from Senators Knowland and Bridges about carryovers and bookkeeping procedures.

[Here follows discussion of the trade program, miscellaneous matters, reciprocal trade, the highway and health programs, various labor and agricultural matters, postal rates and pay, housing, and the "Buy American" program. For text of the section on the trade program, see page 218.]

Eisenhower Library, White House Office, Office of Staff Secretary records, "1952-61

Notes on the Legislative Leadership Meeting, Held at the White House, December 14, 1954 [1]

CONFIDENTIAL

The following were present:

President Eisenhower

Vice President Nixon

Sen. Knowland
Sen. Bridges
Sen. Millikin
Sen. Saltonstall
Sen. Ferguson
Sen. Wiley

Sen. Lyndon Johnson
Sen. Clements
Sen. Hayden
Sen. Russell
Sen. George

Speaker Martin
Rep. Halleck
Rep. Arends
Rep. Leo. Allen
Rep. Chiperfield
Rep. Taber
Rep. Dewey Short

Rep. Sam Rayburn
Rep. McCormack
Rep. Cannon
Rep. James P. Richards
Rep. Carl Vinson

Sec. Dulles
Asst. Sec. Thruston Morton, State
Sec. Humphrey
Sec. Wilson, and Asst. Secs. Seaton, Burgess, McNeil, Struve Hensel
Gov. Stassen, FOA
Director Hughes and Mr. Brundage

Gov. Adams
Gen. Persons
Mr. Shanley
Mr. Hagerty
Mr. Snyder
Mr. Harlow
Mr. Morgan
Mr. Jack Martin
Mr. Gruenther
Gen. Goodpaster
Mr. Milton Eisenhower
Dr. Hauge
Mr. Randall
Mr. Minnich

[1] Drafted by Assistant Staff Secretary to the President, L. Arthur Minnich, Jr. The source text indicates the meeting was held from 8:30 a.m. to 11:45 a.m.

The President opened the meeting with a brief outline of the topics scheduled for discussion but made it clear that the Leaders could appropriately raise other items if they wished. He was hopeful of developing a meeting of the minds.

[Here follows discussion of the budget, foreign relations, the foreign trade program, and national defense. For text of the section on foreign trade, see page 112.]

Mutual Security—Mr. Stassen characterized this program as one devoted to facilitating our air base program and denying bases to the Communists, as helping fulfill our long term strategic needs and strengthening our economy generally.

He noted that Europe had just had its best year economically since World War II, that European countries needed to maintain a mobilization base there, and that it would be desirable for them soon to reach a position where they could contribute to the development of less advanced areas of the world. This was particularly true since the Soviets were now using trade as an instrument of policy and also were offering technical assistance as we had been doing for some time. Sen. Johnson ascertained that, to our knowledge, Russia had thus far offered about $111 million of technical assistance. Sen. Knowland was interested in how much of this was already in effect. Mr. Taber inquired and was informed that our trade agreements under this program were mostly barter, as in the case of taking Icelandic fish because of Iceland's economic requirements. Mr. Stassen then referred to our plans for expanding the Point Four program, especially by contracting the services of US universities. This had a double advantage of helping us to reach the intellectuals of the countries we work with.

Korea, said Mr. Stassen, would remain a large part of the program, though less than the current year, because of the remaining need for rebuilding the country and particularly for underpinning the twenty Korean divisions—which are just too much for an economy like Korea's. Some of the 1955 Indo-China money is to be used in other parts of Southeast Asia and the Pacific.

Answering Sen. Wiley, Mr. Stassen pointed out that 75% of FOA money is spent directly to purchase materials in the United States. The other 25% is for purchases abroad or for direct cash payments. Sen. Wiley asked if it were true that sooner or later all of this money comes back to the United States. Mr. Stassen agreed that much of it does, and the remainder strengthens their economies for other trade helpful to the United States.

Mr. Stassen corrected Sen. Russell's belief that the Indo-China money had merely been turned over to the French after the Geneva settlement. He made clear that the program was subject to

GAO scrutiny, then went on to discuss the economic needs of that country and of Japan.

With charts, Mr. Stassen showed how our aid to other countries had paid off during our own recent economic difficulties, for exports of both industrial and agricultural products had stood up well while domestic sales were reduced.

Sen. Wiley asked further about unobligated balances for Southeast Asia. Mr. Stassen stressed that most of what was available in unexpended balances was for military items which take a long lead time. The carryover this year will be less than in the past and would be still further reduced in the coming year. Mr. Cannon thought it highly important to keep on with reducing the carryover.

Mr. Richards asked about economic aid or direct support to Europe, and Mr. Stassen told him there was none except for Berlin, Spain and Yugoslavia. Mr. Richards wondered if the request for funds for military items for Europe would be directed to the Military Committees of the Congress, but Mr. Stassen felt that was a matter for the Congress to decide. Richards then asked if the program involved a great deal of offshore procurement and Mr. Stassen replied that it was on a declining trend.

Mr. Hensel presented the military side of the program, stressing that it is virtually impossible to follow any rigid plan because of the almost continuous changes in the world picture which require almost constant programming. He stated that some $380 million had already been transferred this year for things that could not be predicted firmly enough to warrant advance programming. About $225 million had been transferred from the military to the economic part of the program, not under Defense Department responsibility.

Mr. Hensel devoted considerable attention to carryovers, new requests, and planned expenditures. The entire program was being kept under review to see that programs accord with realistic force goals rather than unrealistic targets. He indicated that consideration was being given to the use of "new weapons" in Europe, a radical factor that might be introduced into the program.

Summarizing, Mr. Hensel thought approximately $1.4 billion new funds would be needed this year, also the establishment of an emergency fund to avoid transfers, and generally less rigid programming.

Conclusion—The President discussed and agreed with the Leaders that January 6th would be the date for the State of the Union address—incidentally Mr. Rayburn's birthday.

The President again stated his great hope that all of these programs would always be considered in an honest bipartisan way. He

recognized that initiative in these areas was not a monopoly of the Executive Branch and he would give full attention to things begun in the Congress. He assured the leaders that he and other Administration officials would always be available for discussion of these programs to the end that they be executed in a nonpartisan way. And he was open to suggestions on procedures for any necessary discussions, whether through the Republican leaders or directly to the President.

After inquiring as to any further questions or comments, the President said that the State of the Union message was taking firm shape and that he would assume from this morning's discussion that there exists basic agreement on all of these programs, but not in such detail as to freeze any one in a fixed position.

Mr. Hagerty then read and obtained approval of a draft statement to be made following the meeting.

L. A. MINNICH, JR.

MSA-FOA Director's files, FRC 56 A 632, "Bureau of Budget 1954"

The Director of Foreign Operations (Stassen) to the Director of the Bureau of the Budget (Hughes)

CONFIDENTIAL [WASHINGTON,] December 23, 1954.

DEAR MR. HUGHES: It is noted that in the draft of the Budget Message, you have included two alternative sections for decision as to the future administrative arrangements for the conduct of the President's Mutual Security Program.

May I respectfully suggest a third alternative which after careful review and consideration as objective as it is possible for me to give under the circumstances, I believe would be the most advantageous for the President to take. I am enclosing a draft of language so that you may see precisely what I have in mind.

The elements of my recommendation to the President are as follows:

1. There are a number of diverse strongly held views in the Congress on this matter, and it has been a subject of Congressional difference every year from the first setting up of the Marshall Plan. Thus a specific recommendation to the Congress at this time either in support of FOA or for some other solution would encounter Congressional opposition which would prejudice the crucial matter of Congressional action on the substance of the Mutual Security Program itself.

2. Conversely, the President's expressed willingness to confer with Congress on this subject will build goodwill toward the President's program.

3. When final action is taken by the Congress, a provision that the new organization would become effective six months after Congressional enactment is essential for a smooth transition, for the effective carrying on of the vital week-by-week activities involved in the program, and for giving a fair opportunity to the career employees who in an overwhelming percentage are sincerely, devotedly, and loyally carrying on the program, to make some arrangements for their continuance or to have a reasonable opportunity to obtain new employment.

It is my judgment that a Presidential position along these lines would receive unanimous approval of the bipartisan Congressional leadership before the Budget Message is sent up, and that during the course of the Congressional session, as the bipartisan leaders of the Committees directly concerned talked it through, a reasonably unanimous decision on the new organization would then be reached satisfactory to the President and to the Secretary of State. This process would facilitate rather than prejudice the consideration of the substance of the program. The basic necessity of the six months' period from the time of adoption to the time it becomes effective is of key importance, as I am certain you can realize under any circumstances.

If you wish, I shall be pleased to discuss this with you further, or with the President.

Sincerely yours,

HAROLD E. STASSEN

[Enclosure]

Paper Prepared by the Director of Foreign Operations (Stassen)

CONFIDENTIAL [WASHINGTON, undated.]

SUGGESTED DRAFT FOR BUDGET MESSAGE OF THE PRESIDENT

In view of the necessity for the Mutual Security Program to continue for some years, a decision must be made before June 30, 1955, on how to organize the Executive Branch of the Government to carry out these responsibilities. It is recognized that there are, and have been since the initiation of programs of this nature seven years ago, various views as to the most effective and desirable organization of the Government for the conducting of this important work in the national interest.

The close coordination of the various activities of technical assistance, defense support, economic development, emergency and disaster relief, and refugee and escapee work, and the functioning of the entire operation under the constant and consistent foreign policy

guidance of the Secretary of State is imperative. These are the principal reasons which prompted me to propose a reorganization plan establishing the Foreign Operations Administration in 1953. It is my observation that this method has been an effective and efficient manner of carrying out these programs so important to the security and well being of the United States. It is recognized, nevertheless, that under existing law the Foreign Operations Administration would expire on June 30, 1955. I will, therefore, be pleased to confer with the Congress and reach agreement on the new administrative organization to carry on the Mutual Security Program in the future years. Whatever the final decision may be, it will be of prime importance that the new organization go into effect six months after its enactment so that an opportunity may be available for a smooth transition from the present organization to the new one. This transition is important so that the week-to-week work can be conducted in the national interest with a minimum of disruption, and the status of the career employees who are serving with loyalty and devotion around the world can be fairly and adequately safeguarded.

Index for Parts 1 and 2 appears at end of Part 2

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